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No. 20645

United States Court of Appeals

FOR THE NINTH CIRCUIT

The Interpublic Group of Companies, Inc., a corporation,
McCann-Erickson, Inc., a corporation, and
Interpublic Inc., a corporation,

Appellants,

vs.

On Mark Engineering Co., a corporation, and
Security First National Bank,

Appellees.

OPENING BRIEF OF APPELLANTS
The Interpublic Group of Companies, Inc., A Corporation,
McCann-Erickson, Inc., A Corporation, and
Interpublic Inc., A Corporation.

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SUBJECT INDEX

Codes and Statutes

Rules

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JURISDICTIONAL STATEMENT

Jurisdiction of the United States District Court to entertain this action was founded upon diversity of citizenship between the parties pursuant to Title 28 U.S.C. Sec. 1332(a)(1).

Appellee On Mark Engineering Co. (hereinafter referred to as "On Mark"), a California corporation, sued to recover rental payments alleged to be due it under a written lease and option to purchase entered into with appellant The Interpublic Group of Companies, Inc., a

Delaware corporation (hereinafter referred to as "Interpublic"). Interpublic was sued under its former name of McCann-Erickson Incorporated and is generally referred to in the findings as "McCann."[1] Appellants McCann-Erickson, Inc., a Delaware corporation, and Interpublic Inc., a New Jersey corporation, subsidiaries of The Interpublic Group of Companies, Inc., were also joined as defendants by On Mark.[2]

Security First National Bank (hereinafter referred to as "Security Bank"), a national banking association and an assignee from On Mark of the said lease and option agreements, was permitted to intervene under Rule 24 of the Federal Rules of Civil Procedure to assert its claim as assignee.

The amount in controversy exceeded $10,000. [Fndg. 5, Clk. Tr. 162.]

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1 It was stipulated by the parties that appellant The Interpublic Group of Companies, Inc. was originally incorporated in Delaware in 1930 under the name McCann-Erickson Incorporated; that on December 30, 1960, it changed its name to Interpublic Incorporated; and that on January 8, 1964, it again changed its name to The Interpublic Group of Companies, Inc., and that this is now the name of the corporate entity which actually entered into the lease and option agreements with On Mark. It was further stipulated that appellant Interpublic, then known as McCann-Erickson Incorporated, executed the lease and option agreement in question under the name of "McCann-Erickson, Inc. [Clk. Tr. 180]

2 The parties further agreed that any judgment which the District Court might enter in the case in favor of plaintiff and against any one defendant would also be a judgment against, and be binding upon, each and all of the defendants. [Fndg. 4, Clk. Tr. 161.]

This Court has jurisdiction of the appeal from the judgment of the court below pursuant to Title 18 U.S.C. Secs. 1291 and 1294.

STATEMENT OF THE CASE

On July 10, 1959, appellee On Mark and appellant Interpublic executed two writings pertaining to a certain Douglas A-26 type aircraft owned by On Mark. The plane had been built as a military aircraft but was to be converted by On Mark for use by Interpublic as an "executive" aircraft. [Fndg. 6, Clk. Tr. 162.]

The two writings, one entitled "Lease Agreement" and the second "Option to Purchase Aircraft," were executed concurrently and were intended by the parties to be taken together and to constitute one single entire agreement between them. [Fndg. 7, Clk. Tr. 162.]

The term of the lease was 60 months, and the monthly rental was $7,747. A total rental of $464,820 was thus payable if the lease continued for the full term. [Fndg. 9(b), Clk.Tr. 163.] The monthly rental payments for the first two and the last three months of the term were payable by Interpublic to On Mark at the time of execution of the lease. Thereafter, monthly rental payments were to be made beginning on a date two months after the date of delivery of the aircraft to Interpublic "and monthly thereafter on the day of the month said delivery shall have been made, until three months prior to the end of the term hereof. . . ." [Pltf's Ex. 2, par. 1-B.]

The lease further provided that On Mark was to make the aircraft available at its plant, for the lessee's flight

test acceptance, no later than October 14, 1959. Delivery of the aircraft was to take place at the said plant no later than October 24, 1959. [Pltf's Ex. 2, par. 2 fn.] On Mark would not, however, be in default if prevented from meeting this schedule by factors beyond its control, so long as it used its best efforts. [Pltf's Ex. 4.]

The option agreement provided that Interpublic should have the option to purchase the plane at a price of $32,950, said option to be exercised and delivery of the aircraft to be made to Interpublic "between July 15, 1964 and August 15, 1964." Interpublic was required to give On Mark fifteen days' prior written notice of its intention to exercise this option. [Pltf's Ex. 3.]

On Mark did not complete its conversion work by mid-October 1959, and delivery to Interpublic did not finally take place until December 18, 1959. [Fndg. 10, Clk. Tr. 164.] Thereafter, and until June 28, 1962, the aircraft continued in the possession of Interpublic, which made monthly rental payments on the 18th day of each month.

On February 8, 1960, On Mark executed and delivered to Security Bank a promissory note in the principal amount of $375,000, and concurrently therewith, as security for the note, On Mark executed and delivered to Security Bank a chattel mortgage on the A-26 aircraft and an assignment of the moneys payable by Interpublic to On Mark under the written lease and option. [Fndg. 31, Clk. Tr. 172; Pltf's Ex. 9.] At the request of On Mark and Security Bank, Interpublic gave its written consent to the said assignment. The written consent provided that Interpublic would pay directly to the Security Bank

all sums payable under the lease or option and further provided that Interpublic would not terminate the lease without the written consent of the assignee. [Pltf's Ex. 9.] After obtaining the assignment and consent thereto, Security Bank released certain third-party guarantors who had previously guaranteed payment of the bank's loan to On Mark, but it was admitted that the existence of this prior guarantee and the subsequent release of the guarantors were never communicated to Interpublic. [Rep. Tr. 1752, line 20 — 1753, line 8.]

On June 28, 1962, the aircraft was involved in an accident at an airport in Elkhart, Indiana, and sustained substantial damage. Following the accident at Elkhart, On Mark had the plane disassembled and shipped to its plant in Van Nuys, California. [Fndg. 13, Clk. Tr. 165.] Inspection of the aircraft and conferences with insurer's representatives ensued and on November 27, 1962, On Mark commenced repairs on the aircraft. [Fndg. 19, Clk. Tr. 168.] On Mark advised Interpublic by letter dated February 14, 1963, that the repairs would be completed and the aircraft ready for redelivery by February 22, 1963. [Fndg. 19, Clk. Tr. 168.] Interpublic declined to accept redelivery on the ground that On Mark had not lived up to its obligations under the lease with respect to repair of the aircraft. [Pltf's Ex. 72.]

On Mark's first amended complaint, filed in May 1963, alleged breach of the written lease agreement by Interpublic and sought damages in the amount of $7,747 per month for a period of twenty-five months, this being the period of time after February 23, 1963 which On Mark contended the lease term still had to run in order to pro-

vide On Mark with a full 60-months' rental. On Mark also sought recovery of $1500 per month as costs of maintaining, storing and flying the aircraft to keep it in an airworthy condition.

After the answer of the subsidiary corporations McCann-Erickson, Inc. and Interpublic Inc. had been filed, but prior to the filing of the answer of The Interpublic Group of Companies, Inc., Security Bank moved to intervene in the action, and this motion was granted on December 9, 1963. By its complaint in intervention, Security Bank also alleged breach by Interpublic of the written lease agreement and sought recovery of unpaid accrued rentals pursuant to the assignment. It also prayed for declaratory relief as to whether or not Interpublic would be barred from exercising any rights under the option. [Clk. Tr. 29.]

Appellant Interpublic answered the amended complaint of On Mark and the complaint in intervention of Security Bank, denying in both answers any liability for alleged breach of the lease and asserting that by its failure to repair the damaged aircraft promptly and properly, On Mark had excused Interpublic from further performance of any obligations it might previously have had under the said lease. [Clk. Tr. 12.]

On June 30, 1964, Interpublic gave written notice to On Mark that it intended to exercise its option to purchase the aircraft on July 15, 1964 upon the payment of the option price of $32,950. [Fndg. 30, Clk. Tr. 171] On July 2, 1964, On Mark sent a written reply, taking the position that Interpublic was in default under the

lease and therefore had no right to exercise the option. [Clk. Tr. 130, par. 9.]

At the trial the bulk of the evidence related to the issue of whether the airplane had been promptly and properly repaired. Plaintiff also offered, and the court received over defendants' objection, evidence of the negotiations between the parties preceding the execution of the lease and option. [Rep. Tr. 227 - 273; 800 - 816; and 895 - 918.] On Mark's counsel informed the court that the purpose of this testimony was to show that although the transaction took the form of a lease and option to purchase, the parties looked upon the transaction as a purchase and sale; Interpublic was, therefore, entitled to exercise the option, not between the dates of July 15 and August 15, 1964, as expressly stated therein, but rather only after paying a full 60-months' rental. [Rep. Tr. 236, lines 6-19; 238, lines 10-15, 17-22; 246, line 21-247, line 8; 247, lines 11-13.]

Appellants' counsel objected several times to this testimony at the trial, on the ground that it was offered for the purpose of varying the express terms of the written option agreement which specified definite dates for its exercise and made no provision for postponement. [Rep. Tr. 224, line 15-226, line 17; 233, line 23; 244, line 16.]

The trial court concluded, however, that the lease and option contained ambiguities and that parol evidence was therefore admissible to determine the intent and true agreement of the parties concerning the exercise of the option. [Con.L. 3, Clk. Tr. 173.] On this issue the court found from the parol evidence admitted for this purpose that the option was exercisable only during the period

test acceptance, no later than October 14, 1959. Delivery of the aircraft was to take place at the said plant no later than October 24, 1959. [Pltf's Ex. 2, par. 2 fn.] On Mark would not, however, be in default if prevented from meeting this schedule by factors beyond its control, so long as it used its best efforts. [Pltf's Ex. 4.]

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On Mark did not complete its conversion work by mid-October 1959, and delivery to Interpublic did not finally take place until December 18, 1959. [Fndg. 10, Clk. Tr. 164.] Thereafter, and until June 28, 1962, the aircraft continued in the possession of Interpublic, which made monthly rental payments on the 18th day of each month.

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On Mark's first amended complaint, filed in May 1963, alleged breach of the written lease agreement by Interpublic and sought damages in the amount of $7,747 per month for a period of twenty-five months, this being the period of time after February 23, 1963 which On Mark contended the lease term still had to run in order to pro-

commencing with the 26th day of January and ending with the 26th day of February, 1965, and that Interpublic had not been entitled to exercise its option on July 15, 1964. [Fndg. 30, Clk. Tr. 171.]

On the issues as to the sufficiency and timeliness of the repairs the court found that the aircraft had been properly and adequately repaired [Fndg. 24, Clk. Tr. 169], and that On Mark did "promptly" execute said repairs, considering all of the circumstances attendant to such repairs. [Fndg. 23, Clk. Tr. 169.] The court also concluded that in any event Interpublic had waived all rights which it may have had to object to either the time utilized for making the repairs or to the nature, scope or adequacy of the repairs which were made to the aircraft. [Con.L. 8, Clk. Tr. 174.]

On the basis of the above findings the court concluded that Interpublic was still obligated under the lease to pay rentals for a full 60 months, this being the total sum of $201,422, representing rent accrued from February 27, 1963 through April 26, 1965, with interest on unpaid payments at 7%. Of this total amount, the sum of $118,857.10, with interest, was to be paid to Security Bank, representing the amount still owing by On Mark to Security Bank pursuant to assignment. [Con.L. 14 and 15, Clk. Tr. 175.]

The court also held On Mark entitled to recover $10,891.90, representing the cost to On Mark of maintaining and storing the plane during the period from March 1, 1963 to December 31, 1964. [Con.L. 16, Clk. Tr. 176.]

The court held that Security Bank had acted to its detriment in releasing the third-party guarantors of its loan to On Mark, and that this constituted consideration sufficient to make Interpublic's consent to the assignment a binding agreement. The court further held that Interpublic was estopped to deny its promise not to "terminate" the lease without the consent of the Bank. [Con.L. 11 and 12, Clk. Tr. 175.]

Accordingly, the court gave judgment for On Mark and Security Bank on their respective amended complaint and complaint in intervention. [Clk. Tr. 182.] The judgment further provided that appellants might, within thirty days after entry of judgment, elect to exercise the option to purchase the aircraft, provided that they pay the option price of $32,950 plus an additional sum of $9,047.27, representing the cost of a reinforcing "strap" which had been installed on the said aircraft. [Clk. Tr. 183.]

On this appeal the appellants are not attacking the trial court's findings that the aircraft was repaired properly and within a reasonable time. There was conflicting evidence as to whether or not the plane was properly repaired, and the trial court's findings in this respect find substantial support in the evidence.

Appellants do assert that the trial court's judgment was erroneous insofar as it was based on a conclusion that the option to purchase the aircraft was not exercisable until the period commencing on January 26, 1965, contrary to the express provisions of the written option, and that, proceeding on this erroneous conclusion, the trial court awarded judgments far in excess of any damage shown.

SPECIFICATION OF ERRORS

1. The District Court erred in holding that the express terms of the written option agreement between the parties might be varied by parol evidence, the purpose of which was to show that the agreement between the parties did not permit exercise by Interpublic of the option to purchase the aircraft until January 1965, rather than between July 15 and August 15, 1964, as expressly stated therein.

2. The District Court's finding that it was the intent and true agreement of the parties that the option to purchase the aircraft was not to be exercised between July 15, 1964 and August 15, 1964, but rather in January and February 1965, is clearly erroneous and without support from the evidence.

3. The court erroneously permitted recovery of lease rentals and costs of maintenance, repair and modifications for a period beyond the time the option was exercisable and exercised in accordance with its terms.

4. The court erroneously failed to determine the value of the option as an offset against plaintiff's right to recover rent and failed to give it any effect as an offset, thereby permitting plaintiff to recover damages in excess of what it would have received by full performance.

5. The court erroneously held that plaintiff in intervention acquired rights in excess of those of plaintiff, its assignor.

SUMMARY OF ARGUMENT

The trial court erroneously received evidence of negotiations between the parties preceding the execution of the lease option agreement, the stated purpose of which evidence was to show that the parties looked upon the transaction as a simple sale of the aircraft. On the basis of this evidence, which did not in any event support any such conclusion, the court determined that appellants were not entitled to exercise the option to purchase between July 15 and August 15, 1964, as expressly stated in the agreement, but rather only in January or February 1965, after paying a full 60-months' rent.

Proceeding on this erroneous premise, the court permitted appellees to recover damages far in excess of the benefits which they would have received had the contract, properly construed, been fully performed on both sides. Recovery was allowed for rental for a period beyond the date when the rental obligation was subject to being extinguished by exercise of the option. Likewise, appellants were allowed no credit for the considerable value of the option, which was at a price far below the value of the plane when it was exercisable.

When proper consideration is given to the reduction of On Mark's claim on the above bases, the amount due it is less than the judgment rendered in favor of appellee Bank. Appellee Bank had no rights transcending the extinguishment of the lease by exercise of the option. The judgment in its favor must, therefore, be reduced to the amount which its assignor, appellee On Mark, is entitled to receive.

would have been made,[3] (3) the lease further provided for extension of the lease term if necessary due to the term not commencing when anticipated, or if, due to accident requiring repairs, an extension was necessary in order to preserve the 60-month rental period, and (4) the option agreement provided for exercise between specific dates of July 15 and August 15, 1964. [Op., Clk. Tr. 154.]

The court thus in effect decided that the lease option agreement was ambiguous because the exercise of the option on the date specified would result in a reduction of the total 60-months rent if the lease were extended to a time more than three months beyond the option date specified, and the lessee exercised its option.

However, leases of real and personal property frequently contain provisions giving the lessee the option to purchase the property at a time which may be prior to the end of the lease term. The rule is that the exercise of such an option operates to cut off the lessor's right to continued rental payments because it extinguishes the lease, unless the lease contains an express stipulation to the contrary. There can therefore be no inconsistency between any provision stating the term of the lease and

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3 It is significant that the discussion of this question in the opinion of the court does not refer to this alleged fact. It is, of course, in any event irrelevant what the parties "originally anticipated." If extrinsic evidence were admissible it would only be to show the contemplation of the parties at the time the contract was executed. That contemplation, as demonstrated *infra,* pages 27-28, by the admission of plaintiff's president, was that the airplane would not normally be ready for delivery until December 1959, and not in October.

a provision granting an option to purchase at a time which may come before the end of such term and thereby extinguish the hiring. The rule assumes the existence of a term which is thus extinguished.

California law recognizes that the effect of a conveyance by the lessor of his interest in the leased property to the lessee is to merge the leasehold estate into the larger estate granted. The result of such merger is the extinguishment of the lessee's obligation to continue to pay rent.

This principle is stated in Section 1933 of the California Civil Code, as follows:

> "The hiring of a thing terminates:
>
> " . . .
>
> "3. By the hirer acquiring a title to the thing hired superior to that of the letter;"

Sacks v. Hayes, 146 Cal.App.2d Supp. 885 (1956), was an action for rental payments alleged to be due to plaintiff lessor from defendant lessee. The evidence showed that the lease of the premises in question was for a period of fourteen months, from September 1955 through October 1956, and that the lessee had paid, in advance, the $125 monthly rental for the first month and last two months of the term. In October 1955, however, the lessee gave notice of her intention to exercise an option to purchase provided for by the lease agreement, and she did not make further rental payments. In reversing a judgment for the plaintiff, the court quoted with approval from the Illinois case of *Cities Service Oil*

Company v. Viering, 89 N.E.2d 392 (Ill. 1949), as follows, at pages 887-888:

> ". . . 'Where the relation of landlord and tenant exists under the terms of a written lease, containing an option to purchase which the lessee exercises, he is no longer in possession as a tenant, but his possession is that of a vendee. . . . The lessor is not entitled to rent after the option to purchase is exercised *unless there is in the lease an express stipulation therefor.* 51 C.J.S., Landlord and Tenant, § 82a. The exercise of the option extinguishes the lease and terminates the relation of landlord and tenant. The lease and all its incidents, express and implied, are blotted out of existence, and the relation of vendor and vendee created." (Emphasis added.)

In accord, see:

Peebler v. Seawell, 122 Cal.App.2d 503 (1954);

Murfee v. Porter, 96 Cal.App.2d 9 (1950).

The lease option agreement between On Mark and Interpublic does not contain any express stipulation for payment of the full 60 months' rent in the event the option is exercised before the expiration of the 60-month term. There is only a flat statement that the option is exercisable between July 15 and August 15, 1964, upon fifteen (15) days' prior written notice. The legal effect, therefore, of the agreement was to extinguish the obligation to pay rent if the option was exercised during such period by due notice.

On Mark's real purpose in introducing evidence of the prior negotiations between the parties was not to explain or interpret the option agreement but to contradict its plain terms and legal effect by showing that it could not be exercised so as to extinguish the rental obligation. It was not proper to permit On Mark to do this.

> "It is a fundamental rule, with only a few exceptions, that extrinsic evidence of prior or contemporaneous negotiations, agreements, declarations or warranties is not admissible to add to, contradict, vary, or, in the absence of an ambiguity, even to explain the terms of a written instrument *or to change its legal effect*." 18 Cal.Jur.2d 737. (Emphasis added.)

California courts have always been particularly stringent in enforcing all aspects of this rule with relation to the time of performance of written contracts. Where the legal effect of failure to specify a time of performance is to require performance within a "reasonable time," evidence of prior negotiations is inadmissible to vary such legal effect. Where a specific date for performance is stated, such negotiations are inadmissible to show a different date.

In *Standard Box Co. v. Mutual Biscuit Co.,* 10 Cal. App. 746 (1909), an option contained no provision specifying the time for exercise thereof. The court held inadmissible parol evidence to show that the option was exercisable within one year and was not limited to a reasonable time. The court said, pages 750-751:

> "Nor do we think it was competent to show by parol testimony that at the time the option was given

> plaintiff agreed that defendant should have one year within which to accept it. It is a well-settled principle that that which is implied by law becomes as much a part of the contract as that which is therein written, and if the contract is clear and complete when aided by that which is imported into it by legal implication, it cannot be contradicted by parol in respect of that which is implied any more than in respect of that which is written. In the present case the law required that the acceptance should be communicated to plaintiff within a reasonable time, and this reasonable time could not be extended by parol. . . . "

California D. & M. Co .v. Crowder, 58 Cal.App. 529 (1922), held that where a written contract to furnish the material and drill certain wells was silent as to the time when the work was to be finished, a reasonable time was allowable under Section 1657 of the Civil Code, and parol evidence was not admissible to show a collateral oral agreement that the work was to be completed by a specified date.

The foregoing cases are illustrations of the general rule that terms of a written contract which are implied by law are as impervious to parol evidence as are the express terms.

Other cases so holding are:

Taylor v. Continental Southern Corp., 131 Cal.App. 2d 267 (1955);

Calpetro Producers Syndicate v. C. M. Woods Co., 206 Cal. 246 (1929).

Specific dates for performance stated in a written contract are universally held inviolate.

In *Buffalo Arms, Inc. v. Remler Co.,* 179 Cal.App.2d 700 (1960), an action by the seller of goods to collect the purchase price, the written agreement between the parties provided that the goods were to be shipped to the buyer on a 30-day trial basis, and that the buyer was to return the goods if it decided, at the end of the 30-day period, that it did not wish to buy. After the goods had been received, the buyer retained them for 103 days before notifying the seller that the goods were unsuitable for its needs. On appeal from the granting of a summary judgment in favor of the seller, the buyer claimed that a triable issue had been presented in its affidavits, which contained recitations of conversations between the parties showing an intention not to require the buyer to decide within the 30-day trial period whether to keep the goods. The court held that the parol evidence rule would forbid the introduction of such evidence, saying at page 710:

> " 'The rule that prior or contemporaneous negotiations cannot be used to contradict, add to or vary a written contract, applies not only to the letter of the written document, but also to its legal effect.' (Citing cases.) What defendant seeks is not to interpret or explain its letter, but to contradict its plain terms and legal effect. The alleged agreement stated in defendant's affidavit was necessarily oral, as it is admitted that there was no other writing. It is clearly inconsistent with the express requirement that the defendant was to decide against the purchase within a reasonable time after the 30-day

Mr. Denny's testimony was to the effect that initial negotiations related to Interpublic's interest in "acquiring" an airplane, that a "possible purchase or lease" was discussed with Mr. Harder as representative of Interpublic, it being indicated that Mr. Harder's company would operate the plane for Interpublic. Detailed specifications were discussed, and at one time a sale price of approximately $400,000 was quoted. This was later reduced to $385,000, which Harder agreed was reasonable. Harder then requested a firm quotation on a 60-month lease basis, explaining that Interpublic did not desire to make the substantial cash outlay for purchase and that it would be more advantageous from a tax point of view to "do it on a lease basis with an option to purchase." [Rep. Tr. 240.] Denny indicated acceptance of the lease option approach so long as it would mean substantially the same financial result as a sale. About this time On Mark sent a telegram, Plaintiff's Exhibit 1, in which a sale at $385,000 or a lease option proposal as an alternative were submitted. Thereafter On Mark prepared the lease option documents providing for a rental of $7,747 per month, which was determined upon by On Mark. Since it had not been in the business of leasing aircraft, On Mark consulted with a leasing company and obtained a formula to apply to the $385,000 purchase price for a 60-month lease with option to purchase. This formula indicated 2¼% per month rent and an option at the end at 8% to 10% of the original value. [Rep. Tr. 251.] Mr. Denny further testified that the airplane was custom-made to Interpublic's specifications, which constituted "an unusually complete and expensive package" [Rep. Tr. 254], and that Mr. Harder spent

considerable time supervising the completion of the plane to specifications as the work progressed.

Mr. Denny referred to Plaintiff's Exhibit 4, a July 13, 1959 letter modifying the delivery requirements so as to excuse On Mark if delivery did not occur by October 15, 1959, by reason of occurrences beyond its control, so long as it was using its best efforts. He explained that this modification was obtained because On Mark knew that "the original October date was pretty tight," and he further stated that "the main reason the airplane was not delivered until December 1959" was that it had to depend on many vendors to supply component parts, which were late in arriving. [Rep. Tr. 259.] Mr. Denny indicated that the approximate cost of the airplane to On Mark was $375,000, which it borrowed from the Bank [Rep. Tr. 266]. Finally, Mr. Denny explained that before specifically proposing the rental and option terms, On Mark's secretary-treasurer prepared an amortization schedule to see whether or not On Mark would be as well off with a lease option on the formula provided by the leasing company as it would be with a sale. This having been done, Denny advised Interpublic, through Mr. Harder, that the monthly rental on a 60-month lease would be $7,747 per month and that the option purchase price at the end of the lease would be $32,950. [Rep. Tr. 272.] Harder indicated he would recommend approval, and the documents were prepared by On Mark.

Mr. Harper's testimony, given in deposition, was also offered by plaintiff. Harper's testimony was to the effect that he discussed the acquisition of the plane with Denny, who mentioned a price of $405,000, and that he, Harper,

stated that that was too much of a capital outlay and the possibility of a lease should be explored. Harper indicated that to be practical the lease would have to entail a right to purchase the aircraft "at the end." [Rep. Tr. 802 - 803.] Harper did not know how the rental of $7,747 was determined [Rep. Tr. 810], but recalled that the lease term had always been discussed in terms of five years or 60 months.

John Harder's testimony concerning his participation in the negotiations was to the effect that he told On Mark he represented parties "interested in acquiring" the airplane [Rep. Tr. 895]; that initially the conversation related to an investigation of the cost, assuming various specifications, as a result of which a preliminary estimate or budget of over $400,000 was generated. There followed discussions of a lease "as opposed to outright sale" between Harder and the On Mark executives. [Rep. Tr. 902.] These discussions resulted in the telegram, Plaintiff's Exhibit 1, offering a lease option as an alternative to a purchase at a price of $385,000, which had by that time been arrived at as the approximate cost. Though Harder advised Interpublic what it would cost to buy the plane, he did not propose any outright purchase. [Rep. Tr. 904.]

In early July Harder advised On Mark that he thought it would be possible to consummate a lease and participated in the final settlement of the specifications, which he approved. [Rep. Tr. 910.] These negotiations were progressing as the final form of the lease option documents was being worked out.

The above evidence in no respect supported the finding that the option was not exercisable until sometime be-

tween January 26 and February 26, 1965, when the option agreement specifically provided that it might be exercised between July 15 and August 15, 1964. The substance of the testimony was that for several weeks or months prior to the execution of the documents the parties negotiated with respect to the "acquisition" of the aircraft, either by purchase or on a lease option basis; that the terms offered for an outright purchase amounted to $385,000; and that the lease option arrangement was an alternative to such outright purchase. On Mark's telegram, Plaintiff's Exhibit 1, specifically so states. To be sure, the initial discussion involved On Mark's stated position that a lease would be acceptable, provided it was on terms which would result in On Mark being "substantially financially rewarded in the same manner as a sale." This, of course, meant no more than that On Mark would require lease terms which it considered equally advantageous financially as a sale at $385,000. The initial discussions also apparently involved a general statement on the part of Interpublic's president, Mr. Harper, that if there were a lease he would have to have an option to purchase the aircraft "at the end."

Such vague generalities voiced at the inception of the negotiation certainly cannot serve to vary specific terms of the lease option agreement prepared by On Mark and submitted many weeks later. In the meantime, On Mark had initiated its own inquiry of a leasing company to determine a formula for establishing lease and option terms. It did not discuss this formula with Interpublic. On Mark simply decided what lease terms it considered would be financially equal to a purchase and sale at $385,000, prepared a definitive draft contract setting

forth the rental term and rate, the date and price for exercise of the option, and all other conditions which it considered would result in such equality, and submitted the contract to Interpublic. The final contract as amended was a complicated, technical lease option agreement which specifically provided that ownership and risk of loss of the aircraft would remain with On Mark, Interpublic as lessee being obligated to procure hull insurance for On Mark's benefit. [Pltf's Ex. 2, par. 5.] Interpublic was required to return the aircraft to On Mark "at the termination of this lease" [Pltf's Ex. 2, par. 8], unless, of course, the option to purchase was exercised. The lease and option together comprised eight pages, and included numerous conditions involving considerable expense for the lessee, such as the obligations to maintain the aircraft, to insure it and to pay taxes levied against it. All of these conditions bore materially upon the relative financial advantage of a sale or a lease on such terms. It would be impossible to relate the generalities exchanged in the initial general discussion to the situation presented by the final settlement of the terms of such an agreement.

Confronted with the obvious fact that general statements made in preliminary discussions many weeks previous could not establish intent at the time of the execution of the definitive conrtact, counsel for On Mark attempted by argument to demonstrate that at the time of execution the parties intended the option was to be exercised only after the payment of 60-months' rent. The explanation was as follows: The lease and option agreement was executed on July 10, 1959. At that time it was contemplated that delivery of the aircraft was to be made to Interpublic approximately three (3) months

later, viz., on October 14, 1959, the date specified for delivery in the lease itself. At the time of execution of the agreements, the last three (3) months' rent was paid in advance. Therefore, the argument runs, fifty-seven (57) additional months remained to be paid, and fifty-seven (57) months beyond October 15, 1959 would be July 15, 1964, the date when the option could be exercised. By that time 60-months' rent would have been paid and the lease term would end. The parties therefore inserted the dates July 15 to August 15 in the option agreement.

This explanation, which apparently was found persuasive by the court [Fndg. 9(c), Clk. Tr. 163], is demonstrably fallacious. It is directly contrary to the uncontradicted admission in the testimony of Robert O. Denny, President of On Mark, who, at the taking of his deposition, read into evidence at the trial [Rep. Tr. 406, line 11-407, line 1], unequivocally stated that at the time the lease and option agreements were executed in July of 1959, it was *not* contemplated that delivery of the aircraft could be made by mid-October. It could not, therefore, have been contemplated that On Mark was to have 60-months' rent under any and all circumstances, or even that it was likely under any circumstances to receive any such rental payment. Denny's testimony was as follows:

> "Q At the time that the lease and option were signed in July when was it estimated that the aircraft would be ready for delivery to Interpublic?
>
> "A Normally it takes us approximately five months to do the work that had to be accomplished

between the time of commencing work and delivery of the aircraft.

"Q The term of the lease, then, was to start from the date of the delivery, isn't that correct?

"A Yes, I believe that is correct.

"Q Which would make it, then, about December of 1959?

"A That is correct.

"Q Do you recall so testifying, Mr. Denny?

"A Yes, sir."

Obviously, only fifty-eight (58) months' rental would have been paid by the option date if delivery were in December, as contemplated.

Mr. Denny further admitted [Rep. Tr. 259] "the original October date was pretty tight, we knew that." As a result, he had a conversation with Mr. B. F. Holme, Jr., then Secretary of Interpublic, with respect to the October 14 delivery date and other matters inserted by interlineation in the lease agreement. [Rep. Tr. 403, line 1-405, line 9.] Following that conversation, Mr. Holme sent On Mark a letter (Pltf's Ex. 4) confirming the agreement of the parties that with respect to the delivery date On Mark would use all reasonable efforts to make the aircraft available for flight test by October 14, 1959 and to make final delivery on or before October 24, 1959; but that if occurrences beyond On Mark's control should make such delivery impossible, then On Mark would use its best efforts to make final delivery at the earliest possible date thereafter.

Mr. Denny testified that he negotiated this modification of the lease with regard to the delivery date so that On Mark would not be in default by reason of a delay in delivery beyond October 14, 1959. [Rep. Tr. 405, lines 6-9.] He succeeded in obtaining such protection and when, as he expected, late receipt of component parts delayed completion [Rep. Tr. 259], Interpublic accepted late delivery. He admittedly did not, however, ask that provision be made to postpone the option date, as he would have done had he intended not only to avoid default but as well to preserve the right to a full 60-months' rental.

Similarly, On Mark submitted the lease with a provision obligating it to repair damage to the aircraft "promptly" if it elected to continue the lease [Pltf's Ex. 2, par. 5] and extending the term for the period taken for such repairs "so that the lessee's possession of said aircraft shall cover 60 full months." Though it must have been obvious that this could result in the term extending many more than three months beyond the option date, On Mark simultaneously and as part of a single agreement submitted a form of option with fixed dates for its exercise.

As demonstrated above, On Mark must be presumed to have intended the legal effect which the agreement it proposed carried. That legal effect was that the exercise of the option between the dates fixed therefor extinguished all obligation under the lease. The consequence of delayed delivery, or of damage requiring repair which took a substantial time to accomplish, all were readily apparent and must certainly have been taken

into account by On Mark in evaluating the lease option arrangement as the equivalent of a sale for $385,000.[4]

Under the lease terms title and risk of loss remained in On Mark at all times. [Pltf's Ex. 2.] If the aircraft suffered substantial damage, it would of course, even though repaired, not be worth as much as it would be if it suffered no damage. Interpublic would also have undergone the expense of hiring other aircraft while the repairs were being made, as it in fact did. [Pltf's Ex. 22.] Consequently, if On Mark were to sell the damaged and repaired aircraft to Interpublic for the option price, but without having received as many months' rental as originally hoped for, there would be no injustice to either side. It was, therefore, perfectly reasonable to provide a fixed date for the exercise of the option.

The District Court's finding that it was the intention of the parties that the option not be exercised before Interpublic had paid a full 60 months is, therefore, clearly erroneous. No evidence supports it, and the uncontradicted evidence in the form of admissions in the testimony of On Mark's president and the documents submitted by On Mark flatly contradict it.

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[4] It must be borne in mind in this connection that if the entire 60-months' rental had been paid together with the $32,950 option price, On Mark would have received over $497,000 for the airplane which it was willing to sell for $385,000.

III. THE TRIAL COURT ERRONEOUSLY PERMITTED RECOVERY OF RENT AND MAINTENANCE COSTS FOR A PERIOD BEYOND THE OPTION DATE.

Having improperly found that the option was not exercisable until January 26, 1965, the trial court awarded damages far in excess of the benefits which would have been received by appellees had the contract, properly construed, been fully performed on both sides. One way in which this resulted was that the trial court held that On Mark was entitled to judgment against appellants in the sum of $201,422.00, representing the rentals accruing and payable but unpaid from February 27, 1963 through April 26, 1965, together with interest. [Con. L. 15, Clk. Tr. 175.][5]

The court also held On Mark entitled to judgment against appellants for the sum of $10,891.90, representing costs incurred by On Mark in maintaining, operating and storing the aircraft during the period from March 1, 1963 to December 31, 1964. [Con. L. 16, Clk. Tr. 176.]

The action of the court in allowing recovery of the rental and maintenance costs beyond the date when Interpublic's attempt to exercise the option would have been effective violates two well established principles of law: (1) The rule that no person shall be allowed to recover a greater amount in damages for the breach of an obligation of a contract than he could have gained by full

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[5] The only reduction provided was the sum to be paid by Interpublic to Security Bank pursuant to the judgment, $118,857.10, with interest. [Con. L. 14, Clk. Tr. 175.]

performance thereof on both sides, and (2) the previously noted rule that the exercise of an option by the lessee merges the leasehold estate and extinguishes the lessee's obligation to continue to pay rent.

A. Damages For Breach of Contract May Not Exceed That Which The Obligee Could Have Gained By Full Performance On Both Sides.

Section 3358 of the Civil Code of the State of California provides as follows:

> "Notwithstanding the provisions of this chapter, *no person can recover a greater amount in damages for the breach of an obligation than he could have gained by the full performance thereof on both sides,* except in the cases specified in the articles on exemplary damages and penal damages, and in sections three thousand three hundred and nineteen, three thousand three hundred and thirty-nine, and three thousand three hundred and forty." (Emphasis added.)

The particular aspect of this rule applicable to prevent the recovery of rent beyond the option date is that which denies damages on account of any continuing obligation which may be extinguished by notice or other act of the obligor. It is patent that if Interpublic had accepted the return of the aircraft and had continued to make the monthly payments until July 15, 1964, it was entitled to extinguish any further obligation to pay rent by its exercise of the option. The exercise of the option involved no burden on the part of Interpublic, since as demonstrated *infra,* Part IV, the airplane was worth almost

four times the option price. On Mark would not, therefore, have received any rental payments beyond the July, 1964 option date. Consequently, it may not recover damages based upon any rental that would have thereafter been payable. Likewise, On Mark would have no occasion to incur any costs of maintenance or operation of a plane in Interpublic's behalf. Interpublic would be in possession of the plane if On Mark did not repudiate the option. Having repudiated any further obligation under the option because of Interpublic's default, On Mark maintained the plane in its own behalf.

Numerous cases hold that the proper measure of damages for breach of a contract by one holding a power to terminate that contract by giving notice is the injured party's loss of profit for the specified notice period only.

The principle is stated in Volume 25, Corpus Juris Secundum, Damages § 74, page 853, as follows:

> "Where notice to terminate is given as authorized by the contract, recovery may be limited to profits which would have been made between the time of the notice of cancellation and the effective date thereof." (Citing *Spur Bottling Co. v. Canada Dry Ginger Ale,* 98 F.Supp. 972 (W.D. Ark. 1951).)

Among the cases which have applied this principle is *Chevrolet Motor Co. v. McCullough Motor Co.,* 6 F.2d 212 (9th Cir. 1925). The case involved an automobile dealer franchise, terminable by Chevrolet upon giving five days' notice to the dealer. Chevrolet repudiated the contract without giving the required notice, and the court considered the question of whether a recovery of

damages might be had against Chevrolet, measured by what the other party would have earned if the contract had been carried out for the full period thereof. The court said, page 214:

> "No decision is cited which so holds. It seems reasonable to hold, however, that there could be no recovery, other than for nominal damages for breach of a contract which was subject to cancellation by either party upon 5 days' notice, and that in the case at bar the plaintiff could not, by reason of the defendant's breach, acquire rights greater than those which the contract gave it. . . . We are of the opinion that, upon the pleadings and proof in the present case, the plaintiff could recover from the defendant no more than nominal damages."

Cline v. Smith, 96 Cal.App. 697 (1929), concerned a contract creating an agency for the sale of tires and tubes delivered to the agent on consignment, which contract contained a provision to the effect that "either party may terminate this contract at any time by giving to the other party sixty days' notice of its intention so to do." The trial court had instructed the jury that if the defendant and cross-complainant was entitled to recover for injury to his business, they might consider the fact that his contract had eight years to run. In reversing the judgment, the court said, page 702:

> " . . . Paragraph 29 gave either party the right to terminate the contract 'at any time,' by giving the required notice, and the jury, in estimating defendant's damages, if any, had no right to consider, contrary to the plain provisions of the contract, that

> it 'had eight years to run.' In view of the company's right to terminate the contract at any time on sixty days' notice, there is not sufficient evidence to warrant a judgment in favor of the cross-complainant for anything like $25,000."

Jewell v. Colonial Theater Co., 12 Cal.App. 681 (1910), involved a complaint by an actress who had been dismissed without notice, although her written contract of employment entitled her to two weeks' notice before dismissal. She was allowed to recover pay limited to the two-week period following her discharge.

In this case, of course, in view of the court's finding that Interpublic was in default, On Mark did not have to deliver the airplane. Under the authorities just cited, however, that did not relieve it of the effect of the purported exercise of the option to terminate future rental obligation. In the cases above discussed the defendant had not effectively exercised the termination provision. They were, however, held entitled to limit the plaintiff's damages to those which would be incurred in the period necessary for them to so terminate.

B. The Effect Of The Exercise Of The Option Was To Extinguish The Obligation To Pay Rent.

As illustrative of the application of the doctrine of merger to California law, appellants have already cited the case of *Sacks v. Hayes,* 146 Cal.App.2d Supp. 885 (1956).

Another case also involving a claim by a lessor that a lessee should continue to pay rent after the exercise of an option to purchase contained in the lease agreement

is *Erving v. Jas. H. Goodman & Co. Bank,* 171 Cal. 559 (1915). That case involved a lease of real and personal property (apparently an office building and its furnishings), where the lease agreement contained an option giving the lessee the right to purchase the leased property. The exercise of the option was held to defeat the interest of the assignee of the lessor's right to collect further rents.

A federal case recognizing that the doctrine of merger applies in California is *Lloyd Corporation v. Riddell,* 222 F.Supp. 587 (S.D. Cal. 1963), where the court said, page 591:

> "The early common law was unequivocal in stating that when a smaller estate and a larger estate came into the same hands, assuming no estate intervened, there was a merger of the smaller into the larger. The smaller estate was said to be annihilated or merged in the larger. See E.g. II Blackstone's Commentaries 177 (15th ed., 1809). The same general view has been accepted and followed in California, where the transaction in question took place and where the land is located. (Citing California Civil Code, Sec. 1933, and cases.) Therefore, it seems clear that the doctrine of merger applies in California. . . . "

C. The Total Rental Payable Between The Time That On Mark Offered To Return Possession Of The Plane After Repair And The Option Date Did Not Exceed $123,952.

On February 27, 1963, upon completion of the repairs, On Mark offered possession of the airplane to defendants.

Between that time and July 15, 1964, sixteen (16) rental payments of $7,747 each accrued.[6] This would total $123,952, the maximum total rental obligation upon which any damage award could be based. As hereinafter demonstrated in Part IV, however, even this sum was subject to an offset representing the value of the exercise of the option to Interpublic.

IV. THE TRIAL COURT ERRED IN REFUSING TO ALLOW THE VALUE OF THE OPTION AS AN OFFSET AGAINST ON MARK'S RECOVERY OF RENTAL PAYMENTS.

Another way the court improperly awarded damages in excess of that which would have been received by appellees had the contract been fully performed on both sides was in its failure to give Interpublic any credit for the value of the option on the option date.

The uncontradicted evidence in the form of the testimony of On Mark's president established that the aircraft was worth $125,000 at the option date. [Rep. Tr. 517-518.] The option to purchase at $32,950 was therefore worth approximately $92,050. To preserve its rights in this respect Interpublic on June 30, 1964 sent a written notice to On Mark advising that it intended to exercise its option to purchase on July 15, 1964; but on July 2, 1964, On Mark sent a written reply to Interpublic, taking the position that since it considered Interpublic to be in default under the lease agreement, Interpublic had no right to exercise the option. [Clk. Tr. 130, par. 9.]

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6 When the accident occurred on June 28, 1962, Interpublic had already paid rent due June 18, 1962. Its next rental payment was, therefore, not due until on or about March 18, 1963.

On Mark thereafter retained possession of the aircraft and, having repudiated any obligation to deliver it to Interpublic, asserted and enjoyed full rights of ownership. It was freely used in the business of On Mark and for personal travel of its principals. [Rep. Tr. 522-526.]

Appellants claim that they should have been allowed a credit for the value of the option at the time of the purported exercise. The evidence with respect to the value was uncontradicted. Mr. Denny, On Mark's president, testified that at the time the option was exercisable the market value of the aircraft was $125,000. [Rep. Tr. 517, line 18—518, line 12.] The trial court concluded, however, that appellants were not entitled to any credit for the value of the option right. [Con. L. 17, Clk. Tr. 176.][7] In this the court erred.

Section 3358 of the Civil Code of California, *supra,* operates not only to prevent recovery of rental beyond the option date, it also requires that in assessing damages credit be given for the value of all performance from which the plaintiff is excused as the result of defendant's breach. This aspect of the rule has been recognized in

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[7] It is true that the trial court held that Interpublic is entitled, if it so desires, to exercise its option, upon paying the judgment at the price of $32,950, subject to certain conditions. This, in effect, writes a new contract for the parties and would deprive appellants of all benefit of the option agreement which was negotiated. As Mr. Robert O. Denny testified [Rep. Tr. 375, lines 1-12], this type of piston engine airplane is being replaced by the jet plane and is 'becoming more and more obsolete as the state of the art develops better executive aircraft." The plane would, therefore, be worth substantially less today than it was worth in July 1964.

the leading authorities on the question of damages and is applied in the California cases.

McCormick on Damages, Section 143, page 587, makes the following statement:

> "Compensation for breach of contract aims to place the injured party in the condition he would have occupied if the contract had been fully performed. To this end the party is entitled to the value of all the benefits he would have received under the contract. If the party complaining has completely performed all the promises and conditions incumbent on him under the contract, then he recovers the full value of the benefits which he would have realized from the other's performance. If, on the other hand, the complaining party has performed none, or has completed only part, of the obligations and conditions imposed on him by the agreement, he may still recover his damages, on the theory that he is excused from the performance by the other's breach, assuming it to be sufficiently serious, *but it would be clearly unfair to award him the full value of what he would get from the other's performance. He must give credit, in striking the balance, for whatever he has been saved by being excused from performing.* So, in actions for breach of a buyer's contract, if the property has not been and will not be delivered by the seller, the seller recovers not the full price, but the price less the disposable value of the property which he retains. . . ." (Emphasis added.)

The Restatement of Contracts, Section 335, sets forth the same principle, as follows:

> "If the defendant's breach of contract saves expense to the plaintiff by discharging his duty of rendering a performance in return or by excusing him from the performance of a condition precedent, the amount of this saving is deducted from the damages that would otherwise be recoverable.
>
> "*Comment:*
>
> "a. The value of a promised performance to the promisee is not to be awarded without regard to its cost to him. If it is to come to him at no cost or if he has already paid for it in full, the performance when rendered would increase his wealth by its full value. To this expected increase he has a contract right; and in case of breach his damages are measured by the full value of the performance that was promised him. Such would be the case, therefore, if the defendant's broken contract is unilateral and wholly independent of and unconditional upon any performance by the promisee.
>
> "b. If, on the other hand, the promisee's right to the promised performance is conditional upon some expensive performance by him, or if *he is himself under a duty to render some expensive performance in exchange for that of the promisor, the latter's breach saves to the promisee the cost of the necessary performance on his part. This saving is credited to the defendant in reduction of damages.*" (Emphasis added.)

In *Alderson v. Houston,* 154 Cal. 1 (1908), involving a breach of a contract to allow agents to sell certain lots of real property, it was held that the defendant owner was entitled to deduct from the contract price, in mitigation of damages, the amounts which the agents would have had to expend in the future performance of the contract and which they were excused from expending by reason of the defendant's breach and the agents' election to treat the contract as terminated.

In *Golden State Orchards v. Harter,* 93 Cal.App. 390 (1928), where a grower had failed to deliver fruit to the packing company, the latter was held entitled to the contract price, less what it would have cost to pack the fruit of the unfulfilled part of the contract. The court said the measure of damages was governed by Civil Code Section 1512, which provides, "If the performance of an obligation be prevented by the creditor, the debtor is entitled to all the benefits which he would have obtained if it had been performed by both parties." The court said, page 403:

> ". . .[T]he party who is to perform the service or do the things required of him by the contract is entitled, in such case, to receive the profits only which would accrue should there be full performance of the contract by him; or, in other words, that the party who was to do the things specified in the contract is entitled in such case to 'payment as for full performance,' less the cost which would necessarily be incurred by full performance."

For a similar holding, see *Griffith v. Welbanks & Co.,* 29 Cal.App. 238, 244 (1915).

Federal cases which have followed the rule that a person cannot recover in damages for the breach of a contract a greater amount than he would have gained had the contract been performed fully include *Avery v. The Schuman Company,* 159 F.Supp. 906 (S.D. Cal. 1958), and *Cooney v. Legg,* 34 F.Supp. 531 (S.D. Cal. 1940).

The applicability of these principles to the instant case is obvious. Defendants' breach of the lease agreement by the nonpayment of rent from the time On Mark offered to restore possession of the plane "excused" On Mark from the obligation to deliver the airplane then worth $125,000 for $32,950. It was only Interpublic's breach that saved On Mark the necessity of this "expensive performance in exchange." Manifestly, the effect of the rule is that "this saving is credited to the defendant in reduction of damages."

V. APPELLEE, SECURITY BANK, ACQUIRED NO RIGHTS IN EXCESS OF THOSE OF ON MARK, ITS ASSIGNOR.

The court held that appellee Security Bank was entitled to judgment for $118,857.10, with interest, being that part of the $201,422.00 accrued rent found due to On Mark necessary to satisfy the unpaid portion of On Mark's note to the Bank. If On Mark is in fact entitled to $201,422.00, there is no problem presented by this portion of the judgment. It is, however, heretofore demonstrated that no such amount is recoverable by On Mark on account of such rent.

When consideration is given to the fact that the option was in fact exercisable on July 15, 1964, and due credit

given for the exercise of the option on that date, it is clear that On Mark would be fully compensated by its taking dominion of the airplane upon repudiation of the option and being awarded judgment in the sum of approximately $31,902 ($123,952 less $92,050). The judgment in favor of the Bank for any greater sum, therefore, cannot be sustained unless it has rights against Interpublic which are independent of and in excess of those of its assignor, On Mark, and which prevent exercise of the option.

The only basis upon which the Bank could have any such rights is Plaintiff's Exhibit 9, the Receipt and Consent to Assignment, which the court held was a binding and enforceable agreement supported by legal consideration which obligated Interpublic not to "terminate" the lease. Plaintiff's Exhibit 9, however, did not purport to prevent extinguishment of the lease by exercise of the option, and if it could be so construed it would be without consideration.

A. The "Receipt and Consent to Assignment" Does Not Purport To Give The Bank Any Rights To Collect Rents Which Would Survive Exercise Of The Option.

The court held that Exhibit 9 was a binding and enforceable agreement on the part of Interpublic not to "terminate" the lease without the consent of Security Bank. [Con. L. 11, Clk. Tr. 175.] There was no occasion for the court to state what this might mean in relation to an extinguishment of the lease and rental obligation by the exercise of the option, because the court did not find the option exercisable at a time which would

result in reducing the rent to a sum less than the balance payable on the note.

To sustain a judgment for appellee Bank for more than the $31,902, which as herein demonstrated is the maximum On Mark is entitled to recover, Exhibit 9 must be construed as obligating Interpublic not to extinguish the lease by exercise of the option. Such an interpretation, however, simply cannot be indulged, because it would be directly contrary to the express language of Exhibit 9. That language clearly shows that the Bank was fully advised of the existence of the option and that its exercise was permitted.

The assignment was not simply an assignment of the right to receive rent. It included, as well, the right to receive "the proceeds of that certain Option to Purchase Aircraft dated July 10, 1959, executed by said assignor and said lessee." [Pltf's Ex. 9.] Accordingly, the Receipt and Consent to Assignment executed by Interpublic, Plaintiff's Exhibit 9, provides that Interpublic "will pay directly to assignee . . . all rentals and other moneys payable or to become payable by the undersigned to assignor under the provisions of the Lease referred to therein, *and under the provisions of that certain Option to Purchase Aircraft dated July 10, 1959, executed by said assignor and the undersigned."* (Emphasis added.)

No moneys would be payable pursuant to the provisions of the option unless the option were exercised. Exhibit 9, therefore, certainly did not preclude exercise of the option. It merely provided that in the event the option was exercised, the Bank would reserve the proceeds of such exercise as security for the repayment of the note.

The covenant on the part of Interpublic not to "terminate" could not, therefore, possibly refer to any extinguishment of the lease which might result from the exercise of the option and the payment of the option price to appellee Bank.

In addition and apart from the fact that Exhibit 9 called for the option price to be paid to the Bank, the rule is that the assignee of a lessor who takes the assignment of the rents with knowledge of an outstanding option cannot prevent the extinguishment of the rental obligation by the exercise of the option. In *Erving v. Jas. H. Goodman & Co. Bank,* 171 Cal. 559 (1915), the lessor of real and personal property had assigned the rents to a party who had knowledge of the fact that the lease contained a provision giving the lessee the right to purchase. The court held that the exercise of the option defeated any right of the assignee to collect further rent. The court said, at page 564:

> ". . . His right to collect rent could not be any greater than Block's [assignor's] would have been in case no assignment had been made to Carter (Civ. Code, sec. 821), and Block had parted with the fee under the purchase clause in the very lease from which Carter's claims must derive their vitality, if any they have. . . ."

Appellee Bank, as assignee of the right to receive the rents, with full knowledge of the existing option has, therefore, no greater rights than On Mark.

B. There Was No Valid Consideration Or Estoppel To Support An Independent Obligation To the Bank Under The Receipt And Consent To Assignment.

The court concluded that the Receipt and Consent to Assignment was a binding and enforceable agreement supported by legal consideration [Con.L. 11, Clk. Tr. 175], and further that since appellee Bank had released certain third-party guarantors of its loan to On Mark in reliance upon the Consent to Assignment given by Interpublic, Interpublic was estopped to deny its promise not to terminate the lease. [Con.L. 12, Clk. Tr. 175.] As heretofore demonstrated in Part A of this Section V, the Receipt and Consent to Assignment does not purport to prevent extinguishment of the rental obligation by exercise of the option, since it provides specifically that the option proceeds are to be paid to appellee Bank. If it were to be so construed, however, Exhibit 9 would fail for lack of consideration. Moreover, such lack of consideration cannot in this instance be supplied by a promissory estoppel since no estoppel can be shown.

The basis of the court's conclusion that the Receipt and Consent to Assignment created a binding and enforceable independent obligation was the claim that since the appellee Bank had released certain third-party guarantors of its loan to On Mark in reliance upon the Consent to Assignment, a promissory estoppel arose. Apart from any such promissory estoppel, Plaintiff's Exhibit 9 is patently without consideration.

The evidence did indicate that Security Bank had surrendered a prior guarantee of its loan to On Mark from others after receiving the Receipt and Consent to

Assignment. However, in his final argument at the close of the trial, counsel for the Security Bank conceded that it did not appear from the evidence offered at the trial that appellants were ever informed that the Bank had surrendered a prior guarantee of the loan from Messrs. Denny and Doheny at the time Interpublic executed the Consent to Assignment. [Rep. Tr. 1752, line 20-1753, line 8.]

It is a well established principle that the surrendering or foregoing of a legal right constitutes a sufficient consideration for a contract only if the minds of the parties meet on the relinquishment of the right as a consideration. 12 Cal.Jur.2d 227. Since Interpublic never was given any notice of the Security Bank's release of the third-party guarantors, it follows that such release by the Bank cannot be effective as consideration to make the consent to assignment a binding agreement.

This principle of law has been expressly approved in a number of California cases. *Williams v. Hasshagen,* 166 Cal. 386 (1913), is squarely in point. This was a suit on a promissory note in which the defendant pleaded want of consideration. The plaintiff offered testimony that at the time the defendant executed her note to the bank, the bank had cancelled four previously outstanding promissory notes signed by officers of the bank. However, defendant testified that she had no knowledge of this fact. In upholding a judgment for the defendant, the court said, at page 390:

> " . . . Of course the cancellation of the old notes would not amount to a consideration, if Mrs. Hasshagen knew nothing about them — and she swore

> that she was ignorant of their very existence. The minds of the parties to a contract must meet before there may be any such consideration. . . . "

In the case of *Simmons v. California Institute of Technology,* 34 Cal.2d 264 (1949), the California Supreme Court made the following statement, at page 272:

> "But the consideration for a promise must be an act or a return promise, bargained for and given in exchange for the promise. (Citations.) In the words of section 75 of the Restatement of Contracts (com. b): 'Consideration must actually be bargained for as the exchange for the promise . . . The existence or non-existence of a bargain where something has been parted with by the promisee or received by the promisor depends upon the manifested intention of the parties . . . The fact that the promisee relies on the promise to his injury, or the promisor gains some advantage therefrom, does not establish consideration without the element of bargain or agreed exchange.' . . . "

Insofar as the existence of a promissory estoppel is concerned, the record simply does not support the court's conclusion that the Security Bank was induced to release the prior guarantors of the loan on the strength of Interpublic's having executed the consent to assignment.

The document itself, Plaintiff's Exhibit 9, shows on its face that before Interpublic's officers affixed their signatures, they struck the language stating that the consent was given "to induce SECURITY FIRST NATIONAL BANK . . . to make to ON MARK ENGINEERING

CO. . . . the loan secured by said Assignment, and, in consideration of the making of said loan . . . "

The act of striking these words from the written consent was certainly notice to the Bank that Interpublic did not acquiesce in the Bank's attempt to manufacture some consideration where none in fact existed. It would seem highly improbable that the Bank was "induced" to release other guarantors of the loan when it knew that Interpublic had deliberately struck the language of "inducement" from the written consent.

The case of *Kelley v. Rouse,* 188 Cal.App.2d 92 (1961) involved an option for the purchase of real property which recited that it was given "for good, valuable and adequate consideration," but the court held that the optionors were not estopped to assert, as against the optionee's assignee, that no consideration was in fact given. The court took note of statements made by a real estate broker who showed the property to the assignee to the effect that there was lack of clarity in the option agreement, that there was a "possibility of problems" in its exercise, and that it might be necessary to have "a lawsuit to square the thing away." In concluding that the purchaser could not effectively contend that he had reasonably relied upon the recitals of consideration in the option, the court said, page 99:

> ". . . These warning signals negate a vacuous acceptance of the option by appellant when an inquiry would have disclosed its lack of consideration and its subsequent withdrawal. . . ."

In conclusion as to this point, it clearly appears that the alleged detriment suffered by the Security Bank was

unknown to appellants and unbargained for; moreover, that there was no reasonable reliance on the Consent to Assignment in any event, since the Bank was notified that Interpublic explicitly declined to agree that its signing of the consent was for the purpose of inducing the Bank to take any action in regard to the loan.

CONCLUSION

On the basis of the foregoing arguments, it is respectfully submitted that this Court should determine that the trial court's judgment was erroneous insofar as it was based on the conclusion that appellants' option to purchase the aircraft was not exercisable until the period commencing on January 26, 1965. Since the trial court determined its award of damages to appellees by proceeding on this erroneous premise, its judgment should be modified by reducing appellees' damages to the amount they would have received had the contract, properly construed, been fully performed on both sides.

Where the trial court's findings in a case tried without a jury are erroneous only because of a misconstruction of law, the U. S. Court of Appeals may direct the entry of a proper judgment in the lower court and thus terminate the litigation upon the merits.

28 U.S.C. § 2106;

Herzberg's, Inc. v. Ocean Accident & Guarantee Corp., Ltd., 132 F.2d 438 (8th Cir. 1943).

It should accordingly be determined that the maximum total rental obligation owing to appellee On Mark is the sum of $123,952, representing sixteen (16) rental pay-

ments of $7,747 each for the months between February 1963 and July 1964, and that this sum should be reduced by $92,050, the value of the exercise of the option to appellants, leaving a balance of $31,902. The judgment for said appellee and for appellee Bank, which has no greater rights, should be reduced to such sum.

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The Interpublic Group of Companies, Inc., McCann-Erickson, Inc., and Interpublic Inc.

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

RODNEY K. POTTER

No. 20645

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

THE INTERPUBLIC GROUP OF COMPANIES, INC., a corporation, MCCANN-ERICKSON, INC., a corporation, and INTERPUBLIC INC., a corporation,

Appellants,

vs.

ON MARK ENGINEERING CO., a corporation, and SECURITY FIRST NATIONAL BANK,

Appellees.

BRIEF OF APPELLEES.

On Mark Engineering Co., a Corporation, and Security First National Bank.

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BRIEF OF APPELLEES.

On Mark Engineering Co., a Corporation, and Security First National Bank.

STATEMENT OF THE CASE.

Appellees believe that it will be helpful to the Court to have before it at the outset a more complete statement of the facts which are relevant to the points raised on appeal than is set forth in the opening brief of appellants. Accordingly, we submit our own statement of the case at this point.

A. Negotiations and Circumstances Leading to the Lease and Option Agreement.

Commencing some time in early 1959, representatives of appellee On Mark Engineering Co. (hereinafter called "On Mark") and appellants (hereinafter called "Inter-

with Interpublic's specifications for $385,000. After setting forth the $385,000 figure, the telegram stated: "*Will furnish very attractive lease with option to purchase to cover five (5) year period.*" [Pltf. Ex. 1] (Emphasis added)

After receipt of the telegram, Harder came to Los Angeles in July, 1959, and met again with Denny. Harder's instructions from Harper were to finalize the specifications and determine the cash outlay or lease price of the proposed aircraft so that Interpublic would know what the commuted value per month on a lease would be. [Rep. Tr. pp. 923, 924]

The meeting between Denny and Harder resulted in improving the specifications substantially from Interpublic's standpoint by substituting a new Collins automatic pilot instead of a Sperry A-12 automatic pilot, and making other changes, but still within the overall price of $385,000. [Rep. Tr. pp. 920-921]

Harder requested of Denny that On Mark give Interpublic a quotation on a sixty-month lease. [Rep. Tr. p. 233]

On Mark was in the business of manufacturing and selling, not leasing, planes. To determine the monthly rental over a sixty-month period for an aircraft having a cash or cost price of $385,000, On Mark contacted the United States Leasing Company in San Francisco and asked for the correct formula to be applied on a lease-option basis. [Rep. Tr. pp. 250-251]

The leasing company advised On Mark that a good "rule of thumb" for determining the rental was 2¼% of the cash or lease price per month, with the first two and the last three months' rental paid in advance;

and that the "option price" should be figured at between 8% and 10% of the original value of the plane. [Rep. Tr. pp. 250, 251]

On Mark's secretary and treasurer prepared an amortization schedule using the formula furnished by the United States Leasing Company and confirmed the fact that under the lease-option arrangement, along these lines, On Mark would be as well off financially as with an outright sale at a price of $385,000. [Rep. Tr. p. 271]

Denny discussed the matter with Harder, told him that the monthly rental on a sixty-month lease would be $7,747.00 per month and that On Mark *"would give [Interpublic] an option purchase price at the end of the lease when the sixty-month rentals had been paid, for $32,950."* [Rep. Tr. p. 272] (Emphasis added)

Harder replied that this seemed reasonable and satisfactory and he would recommend that it be approved by Interpublic. [Rep. Tr. p. 273]

Harder reported the proposed terms of the lease and option agreement to Harper, President of Interpublic. Harper testified that he had no idea of how the "option price" of $32,950 was determined. He made a computation of what the total payments by Interpublic would be for the lease rentals and the option to purchase the aircraft and arrived at a figure of "something like $460,000 or $470,000 plus the amount of the recovery of the aircraft, bringing the total to approximately a half million dollars." [Rep. Tr. p. 1416].

On Mark's attorneys prepared separately the lease and the option agreement because Interpublic "wanted them in two separate documents." [Rep. Tr. p. 397]

1959, and the term of the lease commenced at that time. [Find. 10, Clk. Tr. p. 164]

On Mark spent approximately $385,000 in remanufacturing the A-26 aircraft to Interpublic's specifications. [Rep. Tr. p. 264] To finance these costs, On Mark borrowed $375,000 from appellee Security First National Bank pursuant to a promissory note which provided for payment of $7,747.00 per month. [SFB Ex. 1] Denny and one of On Mark's other stockholders, Mr. Doheny, personally guaranteed on Mark's note to the bank. [Rep. Tr. p. 379] To secure payments of the note, the bank took a chattel mortgage on the A-26 aircraft and an assignment of rentals due On Mark under its lease with Interpublic. [SFB Ex. 2, 3]

On February 25, 1960, after the A-26 aircraft was in the possession of the lessee, Interpublic gave its written consent to the assignment of the rents due under the lease from On Mark to the Security First National Bank to secure On Mark's $375,000 loan from the bank. Said consent stated by its terms that so long as On Mark remained indebted to the bank, the lease would not be terminated by Interpublic without the written consent of the bank. [Pltf. Ex. 9]

C. Accident to the Plane and Interpublic's Conduct and Action Thereafter.

Interpublic had continuous possession of, and operated, the A-26 aircraft from the time of its delivery in December, 1959 until June 28, 1962. During this period Interpublic maintained and repaired the plane as needed, paid all of its operating expenses, and in other ways treated the plane as its own. The lessees, as required by the lease, provided and paid for insurance on

the aircraft. The performance of the aircraft was completely satisfactory while it was being operated by Interpublic. [Find. 11, Clk. Tr. p. 164]

On June 28, 1962, while being operated by Interpublic, the A-26 aircraft was damaged in an accident at Elkhart, Indiana. The accident occured while the plane was taxiing at a speed of approximately five miles per hour over a newly paved macadam ramp containing a reinforced concrete dry well at the Elkhart Airport. The roof of the dry well collapsed, the right main landing gear of the A-26 aircraft descended into the resulting hole, and the plane came to rest supported by the tail of the fuselage, right hand wing tip, propeller blade and other portions of the plane. [Find. 12, Clk. Tr. pp. 164-165]

Following the accident a decision had to be made concerning the extent of the damage to the plane and whether it was capable of economic repair. Almost immediately, as the trial court found, Interpublic secretly decided that it would not again take possession of or operate the A-26 aircraft no matter whether or not it was fully repaired, and determined to secure another plane for its permanent use in place of the A-26 aircraft. To this end, Interpublic sought to induce On Mark to declare the A-26 aircraft a "total construtive loss," in order to cause a termination of the lease. [Find. 14; Clk. Tr. pp. 165-166] On Mark, however, after a careful inspection of the damage to the aircraft notified Interpublic that it was repairable, and that it proposed to make the necessary repairs. [Finds. 13, 18, 19; Clk. Tr. pp. 165-168; Pltf. Exs. 32, 47]

On August 8, 1962, On Mark advised Interpublic in writing that because of the accident "it is understood

that your obligation to pay the monthly rental under the lease is temporarily suspended *and the term of the lease agreement is extended accordingly.*" [Pltf. Ex. 32] (Emphasis added)

On September 21, 1962, On Mark wrote Interpublic that it was estimated that it would take approximately seventy days from the commencement of the work to complete the repairs, and that On Mark exercised its option under the lease to repair the plane *"and to extend the term of the lease accordingly."* [Pltf. Ex. 47] (Emphasis added)

During the period from the date of the accident to completion of repairs, Interpublic never advised On Mark that Interpublic did not intend to retake possession of the A-26 aircraft but, rather, it intentionally led On Mark to believe that after repair Interpublic would accept redelivery of the plane. Nor during this time did Interpublic voice any objection to On Mark's determination that the lease term had been extended by a period commensurate with the time required to repair the plane. Instead, Interpublic immediately leased on a temporary basis a replacement aircraft at a rental less than that which it had paid to On Mark, and attempted to find a permanent replacement for the A-26 aircraft. Harper sent Harder to Europe where a suitable plane was found and purchased by Interpublic in October, 1962, flown to the United States, then resold by Interpublic to a leasing corporation, which in turn leased the plane back to Interpublic. [Finds. 17, 20, 26]

After making other unsuccessful attempts to find a means to terminate its liability under the lease, Interpublic received On Mark's letter of February 14, 1963, stating that the repairs would soon be completed and the plane would be ready for delivery. [Find. 17, Pltf. Ex. 70] Interpublic waited until February 20, 1963, and then advised On Mark for the first time that it would not accept delivery of the plane because, it was claimed, the repairs had not been made "promptly" and the lease had been "terminated." [Pltf. Ex. 72]

On Mark immediately denied Interpublic's claim, advised again that the plane was ready for delivery, and asked Interpublic to reconsider its position. [Pltf. Ex. 74]

Later, after the present action was filed, Interpublic also contended that On Mark had not "properly" repaired the aircraft.

The trial court found, and appellants do not challenge such finding, that the A-26 aircraft had been "promptly" and "properly" repaired, and that Interpublic had breached the lease by refusing to accept redelivery of the plane and to pay the rentals due to On Mark. [Finds. 23, 24; Concl. of Law 9; Clk. Tr. pp. 169, 170, 174-175]

D. Interpublic's Purported Exercise of the Option to Purchase the Plane.

More than twenty-four months after making any payment of rent to On Mark, and more than sixteen months after purportedly terminating the lease, Interpublic on June 30, 1964, wrote to On Mark and advised that Interpublic intended to "exercise the option" to purchase the A-26 aircraft on July 15, 1964. [Find. 30; Clk. Tr. p. 171]

On Mark advised Interpublic that the lease and option agreement constituted a single agreement, that Interpublic was then in default under the lease-option agreement and then owed On Mark more than $147,952 in rentals and other expenses, plus interest charges thereon. Accordingly, On Mark denied that Interpublic had any right whatsoever to exercise the option to purchase the aircraft. [Cl. Tr. p. 130, paragraph 9]

On Mark maintained a consistent position throughout the trial, that Interpublic was not entitled to so exercise the option since it was then in default under the lease. On Mark also contended, and the trial court found, that even if Interpublic had not been in default, the time for exercise of the option was extended, first, by the original delay in commencement of the lease (from October to December 18, 1959) and, secondly, by the extension of the lease during the repair period after the accident (June 28, 1962 to February 20, 1963), that is, until January 26, 1965; and that a condition precedent to the exercise of the option was the payment to On Mark of sixty monthly rentals aggregating $464,820. [Find. 30; Clk. Tr. 171]

SUMMARY OF ARGUMENT.

Appellants' sole ground for their appeal centers about the "option" to purchase the aircraft contained in the lease-option agreement. Appellants do not challenge the trial court's determination that Interpublic had intentionally breached the agreement by refusing to accept redelivery of the aircraft and by failing to pay any of the monthly rentals due after February, 1963, or that at the very time it purported to exercise the option on June 30, 1964, Interpublic owed $123,952.00 for rent on the aircraft which it has never tendered or offered to pay.

Appellants' claim on this appeal really gets down to this: notwithstanding Interpublic's admitted breaches and defaults of the lease-option agreement which had continued for some sixteen months, and the fact that the term of the lease had been extended to a date far beyond its original term, Interpublic had the *absolute right*, in July, 1964, to exercise the option to purchase an aircraft costing at least $385,000 for $32,950.

Appellees submit that appellants' claim is preposterous and should be rejected on this appeal because: (1) there was an inconsistency, ambiguity and an uncertainty in various provisions of the lease-option agreement which required extrinsic evidence to aid in the contract's interpretation; (2) Interpublic had no right to exercise the option when it was then in default of the agreement and had claimed for a long time that the contract had been terminated; (3) Interpublic was not entitled to exercise the option until it had paid sixty months' rent; and (4) the term of the lease, and the date for exercise of the option, had been extended to a date far beyond July, 1964.

Concerning appellants' alleged "Specifications of Errors" (App. Op. Br. p. 10), all of which spring from the basic determination discussed immediately above, appellees maintain that:

1. The District Court properly permitted evidence concerning the negotiations and surrounding circumstances of the execution of the lease-option agreement in order to explain a basic ambiguity, uncertainty, and inconsistency in the two documents comprising the agreement.

2. The trial court properly determined that the option to purchase the aircraft was not exercisable between July 15, 1964 and August 15, 1964, and such a determination is clearly supported by the record.

3. Lease rentals and maintenance and other costs incurred after the period July 15 to August 15, 1964 were clearly the responsibility of Interpublic, for the term of the lease was extended to a date long after August 15, 1964.

4. The District Court correctly refused to offset the "value of the option" against On Mark's right to recover rent, for Interpublic had no right to exercise the option when it was in default, the option agreement did not authorize such an "offset" and, in any event, Interpublic could not exercise the option until it had paid sixty monthly rentals to On Mark.

5. The District Court correctly determined that Security First National Bank was entitled to $118,-857.10, with interest, of the $201,422.00 accrued rent due to On Mark.

ARGUMENT.

I.

The Trial Court Properly Received Evidence Concerning Negotiations and Circumstances Surrounding the Execution of the Lease-Option Agreement.

Appellants' entire argument that the trial court erred in receiving parol evidence concerning the circumstances surrounding the execution of the lease-option agreement is based upon the faulty premise that the Court was entitled to look *only* at the dates of July 15 to August 15, 1964 in determining when the option to purchase could be exercised, and was not permitted to consider other provisions of the lease-option agreement, or any other circumstances, in determining this question.

To accept appellants' premise, it would be necessary to set aside the stipulation of the parties that the lease and option agreement constitute one single, entire agreement between the parties. We would have to ignore the provisions of the lease which clearly call for a term of sixty months and require payment of sixty monthly rentals of $7,747.00 each to be made by Interpublic. It would be necessary to accept the fallacious argument that the option portion of the agreement can properly modify the lease portion (*i.e.*, the term of the lease is controlled by the time for exercise of the option), but the lease cannot properly modify the option (*i.e.*, the time for exercise of the option is not controlled by the sixty-month term of the lease). The necessary result of adopting appellants' argument would be to defeat and frustrate the plain intention and expectation of the parties when they entered into their lease-option agreement, to deprive On Mark of the rentals to which it was en-

titled, to reward Interpublic with a "windfall" for its admitted breach of the contract, and to violate the most elementary rules of fairness and common sense.

In determining whether Interpublic was entitled under the lease-option agreement to exercise the option portion of that contract during the period July 15 to August 15, 1964, the trial court was not only permitted but was compelled to look at more than a few dates set forth in the option part of the agreement. It had to look at the entire lease-option agreement, including the provisions that:

a. The lease term was for a period of sixty months beginning on the date of delivery.

b. The lessee obligated itself to pay On Mark sixty monthly rental payments of $7,747.00 each.

c. If the plane suffered damage and was repaired, the lease term was to be extended so that the lessee's possession thereof "shall cover sixty full months."

Further, the Court had before it the uncontradicted evidence (which was admissible without regard to the "parol evidence" rule) that:

d. The A-26 aircraft was originally scheduled for delivery in October, 1959, but actual delivery to Interpublic was delayed by Interpublic's own acts and other causes beyond the control of On Mark until mid-December, 1959.

e. While in the possession of Interpublic, the aircraft was damaged on June 28, 1962. It required eight months to make and complete repairs to the plane, during which period payment of the lease rentals was suspended, and under the terms of the

lease the term of the lease was extended for an equivalent period.

f. Interpublic had sought to terminate the lease in February, 1963, on grounds found by the trial court to be spurious and without merit. When it attempted to exercise the option, it was in arrears in its rental payments to On Mark to the extent of sixteen months, or $123,952.00.

Considering all of these matters, it was perfectly apparent to the Court that there was an ambiguity, an inconsistency, and an uncertainty within the lease-option agreement with reference, among other things, to the time at, or within, which Interpublic had the right to exercise the option to purchase, and the total amount to be paid by Interpublic under the lease-option agreement. Accordingly, the District Court properly permitted the introduction of evidence of the circumstances under which the lease-option agreement was executed.

The evidence (which is set forth in some detail above in this brief) established clearly that the parties from the very beginning contemplated that On Mark's costs in remanufacturing the A-26 aircraft to Interpublic's specifications would be repaid by appellants through either an outright purchase by Interpublic or a lease arrangement; that, for tax considerations, Interpublic requested that the transaction take the form of a lease option arrangement and be written in two separate documents each of which, in order to accomplish Interpublic's objective, would naturally not refer to the other; that the form of the transaction was immaterial to On Mark so long as it was rewarded financially in the same manner as a sale; that no one paid any attention

to the "option" price for the aircraft except only that such sum, when added to sixty payments of $7,747.00 each, would return to On Mark its out-of-pocket expense of $385,000, plus the interest which it was paying to the bank on its loan to finance the work; and that the specific amounts for rental and the option price used by the parties were determined by a formula furnished to On Mark by a leasing company on the basis of a purchase price or cost basis of $385,000.

The Court considered the fact that under the original delivery schedule of October, 1959, with the last three months' rentals paid in advance, the sixtieth monthly rental would have been paid by Interpublic in July, 1964, the period specified for exercise of the option. At that time if Interpublic had complied with the other terms of the option-lease agreement and had made all payments of rent, it would have made On Mark "whole" by a last payment under the option agreement of $32,-950 and Interpublic would, thus, be the owner of the aircraft.

The District Court properly found, on overwhelming and mainly uncontradicted evidence, that under the lease-option agreement and the circumstances under which that contract was made, Interpublic had no right to exercise the option to purchase the A-26 aircraft, except during the period between January 26, 1965 and February 26, 1965 (the fifty-seventh month of the lease term as extended); and that as a condition to the exercise of the option, Interpublic was required to have paid On Mark sixty monthly rentals of $7,747.00 each, or a total of $464,820.00. Accordingly, the trial court found that Interpublic's purported exercise of the option in July, 1964 was ineffective and that On Mark was

not obligated to sell the aircraft at that time for the option price of $32,950.00. [Find. 30; Clk. Tr. p. 171]

In arguing that extrinsic evidence was inadmissible, appellants focus *solely* on several words in the option portion of the agreement, claim that these words are clear and unambiguous, ignore completely the inconsistent provisions of the lease, and conclude that parol evidence was, therefore, inadmissible to "vary" the terms of the option portion of the integrated lease-option agreement.

The only authority presented by appellants to support their position is some general language in the cases that, in the absence of ambiguity, evidence concerning negotiations leading to a contract is not admissible to vary the terms of a written agreement; and they argue that there is not necessarily any ambiguity in language which permits the lessee to exercise an option to purchase property at a time prior to the end of the lease term.

The difficulty with appellants' argument is that there is a basic ambiguity, uncertainty, and inconsistency between the language in the lease and the option agreement which not only permitted but required an explanation. How could Interpublic be permitted under the option to purchase the aircraft after making only thirty-four monthly payments when the lease portion of the lease-option agreement required the lessee to pay sixty monthly payments? How can the lease term be terminated by the exercise of an option in July, 1964, when under the provisions of the lease the term of the lease had been extended until long after that date? If appellants do not concede that these questions require an explanation, they are either extremely naive or they deliberately ignore economic reality.

In the interpretation of contracts, a court is not restricted to an examination of only one portion of a written agreement, even though it is clear and explicit, but must consider and examine the entire agreement. This principle is established in Section 1641, *California Civil Code:*

> "The whole of a contract is to be taken together, so as to give effect to every part, if practicable, each clause helping to interpret the other."

When there is more than one contract relating to the same matter, between the same parties, and made as parts of substantially one transaction, they are to be taken and construed together. *Cal. Civ. Code,* Section 1642. *Collins v. Home Savings & Loan Association,* 205 Cal. App. 2d 86 (1962).

An ambiguity, calling for construction and permitting introduction of parol evidence, may arise as well from words plain in themselves but uncertain when applied to the subject matter of the contract. *Collins v. Home Savings & Loan Association, supra.*

When, taken together, two contemporaneous documents are internally inconsistent, parol evidence is properly admissible for purposes of showing the surrounding circumstances and to determine the meaning of the contractual provisions. *Mayers v. Loews, Inc.,* 35 Cal. 2d 822 (1950).

The paramount rule in the construction of contracts is that the court ascertain the intention of the parties. *Cal. Civ. Code,* Section 1636. In *Universal Sales Corp. v. California Press Mfg. Company,* 20 Cal. 2d 751 (1942), the court elaborated on this general rule, 20 Cal. 2d at 761:

> "As an aid in discovering the all-important element of intent of the parties to the contract, the trial court may look to the circumstances surrounding the making of the agreement [cases cited], including the object, nature and subject matter of the writing [cases cited], and the preliminary negotiations between the parties [cases cited], and thus place itself in the same situation in which the parties found themselves at the time of contracting."

The California courts, especially in recent decisions, have refused to permit the "parol evidence rule" to be used to prevent the ascertainment of the real intention of the parties to a contract. *Laux v. Freed*, 53 Cal. 2d 512 (1960); *Parsons v. Bristol Development Co.*, 62 Cal. 2d 861 (1965); *Bartel v. Associated Dental Supply Co.*, 114 Cal. App. 2d 750 (1952); *Collins v. Home Savings & Loan Association*, 205 Cal. App. 2d 86 (1962); *Louis Lesser Enterprises, Ltd. v. Roeder*, 209 Cal. App. 2d 401 (1962).

The policy of California courts liberally to consider extrinsic evidence in interpreting contracts is well-illustrated in the case of *Bartel v. Associated Dental Supply Co., supra*. There a lease gave the lessee the right to cancel, after a certain date, "upon six months' written notice or at its option [Lessee] shall become entitled to a reduction of rent . . . in the event that the business of Lessee has declined to a degree that it would be impossible to pay the rent herein provided, due to" certain specified causes. Plaintiff claimed that parol evidence was admissible to show that the parties intended that the right of lessee to *either* cancel or obtain a reduction in rent was conditional; defendant claimed the lease

gave him the right to cancel with or without cause. In upholding the trial court's consideration of extrinsic evidence, the court set forth these well-established principles to be applied with reference to the admission of parol evidence (114 Cal. App. 2d 752):

> "Unless a court can 'to a certainty and with sureness, by a mere reading of the document, determine which is the correct interpretation . . . extrinsic evidence becomes admissible as an aid to interpretation . . .' (*MacIntyre v. Angel,* 109 Cal. App. 2d 425, 429 [240 P.2d 1047].)"

The opinion stated that the courts in applying the parol evidence rule were showing less rigidity than formerly and that (114 Cal. App. 2d 753):

> 'As well said by Mr. Justice Dooling in *Body-Steffner Co. v. Flotill Products, Inc.,* 63 Cal. App. 2d 555, 561-562 [147 P.2d 84], '. . . where extrinsic evidence is offered to explain inconsistent provisions in a contract courts should not strain to find a clear meaning in an ambiguous document, and having done so exclude the extrinsic evidence on the ground that as so construed no ambiguity exists . . .' Mr. Presiding Justice Peters said in *Wells v. Wells,* 74 Cal. App. 2d 449 [169 P.2d 23]: 'Much can be said in support of the rule that parol evidence is not only admissible to explain an ambiguity appearing on the face of the document but is also admissible to show that what appears to be a perfectly clear agreement, in fact meant something entirely different to the parties.' (See, also, *Jegen v. Berger,* 77 Cal. App. 2d 1, 7 [174 P.2d 489].)"

Finally, the court pointed out that (114 Cal. App. 2d 753):

> "In *Barham v. Barham*, 33 Cal.2d 416 [202 P. 2d 289], Mr. Justice Spence succinctly sums up the rules concerning the interpretation of agreements (pp. 422-423): 'When the language used is fairly susceptible to one of two constructions, extrinsic evidence may be considered, not to vary or modify the terms of the agreement but to aid the court in ascertaining the true intent of the parties [citation], not to show that "the parties meant something other *than* what they said" but to show "what they meant *by* what they said" [citation]. Where any doubt exists as to the purport of the parties' dealings as expressed in the wording of their contract, the court may look to the circumstances surrounding its execution — including the object, nature and subject matter of the agreement [citation] — as well as to subsequent acts or declarations of the parties "shedding light upon the question of their mutual intention at the time of contract" [citation].' "

The approach of the California Supreme Court to the "parol evidence" rule is shown in the recent case of *Parsons v. Bristol Development Co.*, 62 Cal. 2d 861 (1965), dealing with a landowner's liability for the balance of a fee under an architect's contract. The court, without any discussion of whether or not the particular provision was or was not ambiguous, or whether it was being "varied" or merely "explained," held (62 Cal. 2d 864-865):

> "The trial court properly admitted evidence extrinsic to the written instrument to determine the

circumstances under which the parties contracted and the purpose of the contract. (Code Civ. Proc., §1860; Civ. Code, §1647; see Corbin, *The Interpretation of Words and the Parol Evidence Rule,* 50 Cornell L.Q. 161)."

In *People v. Ganahl Lumber Co.,* 10 Cal. 2d 501 (1938), the California Supreme Court was presented with a case remarkably similar to the one at bar. Southern Pacific Railroad Company had leased a parcel of land to Ganahl upon which the latter had built and operated a lumber yard. The railroad had also built a spur track to the leased parcel, the cost of which, however, was paid by Ganahl. These transactions were dealt with in separate documents, a lease agreement and a spur track agreement, which bore different dates, but which had been delivered on the same date, and which the court held should be construed as a single instrument.

The lease agreement expressly provided for an initial term of one year, and a month to month tenancy thereafter. The spur track agreement provided that Ganahl would receive, in semi-annual payments, a rebate of $2 for each carload of freight shipped over the spur until a sufficient number of cars had been shipped that the sum of $1,016.21, representing the cost of a specified segment of the spur track, had been recovered by Ganahl.

In April of 1934, the state commenced an action to condemn for highway purposes a portion of the leased parcel. Southern Pacific, apparently with advance knowledge of the impending condemnation, had on January 22, 1934, served upon Ganahl notice of termination of its lease. Ganahl refused to quit the premises.

In the condemnation action the trial court admitted parol evidence that the intent of the parties was that the term of Ganahl's lease was to run at least until Ganahl had regained the sum of $1,016.21 in rebates. Based upon the amount of rebates during the nine years that had passed, this meant that the term of the lease would be at least thirty-two years. The trial court found, therefore, that the term of Ganahl's lease had twenty-two years and eleven months to run in April of 1934 and awarded Ganahl damages for the condemnation of its leasehold. The state appealed this award to the California Supreme Court.

The same arguments that appellants here make in their brief appear to have been made in the *Ganahl* case. It was claimed that there was no ambiguity concerning the term of the lease for the agreement stated perfectly clearly that the tenancy was from month to month. It was claimed that there was no unavoidable conflict between this provision and the rebate provisions for the spur agreement did not affirmatively obligate Southern Pacific to pay the full $1,016.21 to Ganahl, since it could be read to mean only that Ganahl would receive $2 per car up to a maximum of $1,016.21.

Despite the surface plausibility of such contentions, the California Supreme Court in *Ganahl* held that the provisions were inconsistent and produced "ambiguity that justified the trial court in admitting evidence to explain the real meaning and intention of the parties in the execution of the two instruments." The court affirmed the trial court's holding that the lease had twenty-two years and eleven months to run, even though the lease expressly provided that the tenancy was from month to month.

Thus, even though a contract provision is perfectly clear and plain, parol evidence is admissible if such provision is possibly at odds with the over-all intent of the parties as expressed in the remainder of the agreements and the circumstances surrounding the making of the contract. The fact, therefore, that the phrase "between July 15, 1964 and August 15, 1964" is clear and unambiguous, does not preclude the admission of extrinsic evidence of the purpose and true nature of the contract, and the intention of the parties.

Another well established principle in the interpretation of contracts is the following taken from *Stoddart v. Golden,* 179 Cal. 663, 665 (1919):

> "A principle of construction well settled is that where one construction would make a contract unusual and extraordinary, and another construction, equally consistent with the language employed, would make it reasonable, fair, and just, the latter construction must prevail."

Interpublic's construction of the contract is not only unreasonable, unfair and unjust, but it is utterly absurd. If its interpretation is accepted then, contrary to the lease provisions, the term of the lease (and the time for exercising the option) would not be extended by the periods required to repair the plane after an accident. The result would be that the *more* accidents and damage it caused to the plane, and the more expense it caused On Mark, the *less* Interpublic would have to pay to acquire ownership of the aircraft! Such a result must be dismissed as fantasy.

Mayers v. Loew's, Inc., 35 Cal. 2d 822 (1950), considered a factual situation somewhat analogous to that

in the instant case. A collective bargaining agreement provided for increases in wages for certain classifications of employees, including those on the "graveyard" shift, changed the time for commencing the "graveyard" shift to a different hour, and made such increases retroactive to a date seven months prior to the execution of the agreement. A letter between the company and the union, executed and delivered similtaneously with the collective bargaining agreement, provided that the change in time of the "graveyard" shift did not commence until a date which was more than a year after the retroactive date of the wage increases. Plaintiff union members sued under the formal contract for the retroactive wage increase. Defendant claimed that the plaintiffs were not entitled under the letter agreement to receive the retroactive wage increase. The trial court excluded evidence concerning the letter agreement on the ground that it would modify and contradict the formal agreement.

The California Supreme Court (*per* Justice Traynor) reversed the judgment. In its opinion the court held that extrinsic evidence was admissible because the formal contract and the letter agreement had to be construed together and, when so construed, the documents were ambiguous and inconsistent, for their terms furnished no clear answer to whether the parties meant that payment of retroactive compensation should be governed by the date set forth in the collective bargaining agreement or in the letter agreement. In its opinion the court stated (35 Cal. 2d 829):

> "It is thus apparent that the contract is not clear on its face. and under the theory of the parol evidence rule that has been accepted by the majority

of this court, evidence of the negotiations of the parties and of surrounding circumstances was admissible for the purpose of determining the meaning of the contractual provisions. (*Universal Sales Corp. v. California Press Mfg. Co.,* 20 Cal.2d 751, 761-762 [128 P.2d 665]; *California Canning Peach Growers v. Williams,* 11 Cal.2d 221, 228-229 [78 P.2d 1154]; *Merkeley v. Fisk,* 179 Cal. 748, 757 [178 P. 945]; see *Union Oil Co. v. Union Sugar Co.,* 31 Cal.2d 300, 306, 307 [188 P.2d 470]; *Body-Steffner Co. v. Flotill Products,* 63 Cal. App. 2d 555, 561-562 [147 P.2d 84]; *Torrey v. Shea,* 29 Cal. App. 313, 316-317 [155 P. 820]; Code Civ. Proc., § 1860; Civ. Code, § 1647.)"

In the case at bar the lease and option agreement must be construed together for they constitute a single contract. When so construed, it is not at all clear whether Interpublic is entitled to exercise the option during the period July 15 to August 15, 1964, if on that date it has not paid sixty months' rent. Nor is it clear that even if Interpublic is entitled to exercise the option at that time, it is not required to pay additional monthly rentals during the balance of the extended sixty months' term. Accordingly, extrinsic evidence was admissible to determine the meaning of the contractual provisions.

Appellants contend that a lease can contain a provision giving the lessee an option to purchase the property prior to the end of the term; and that the exercise of the option extinguishes the lease and any further obligation to pay rent (App. Op. Br. p. 14). Appellants argue that this principle fits the facts of this case; that therefore there can be no ambiguity or uncer-

tainty in this lease-option agreement; and, accordingly, parol evidence was inadmissible.

Appellants' argument begs the question because it *assumes* that our lease-option agreement clearly gave to Interpublic the right to exercise the option before the end of the lease term and prior to payment of sixty months' rent. But, as we have shown above in this brief, the lease portion of the agreement required payment to On Mark of sixty monthly rentals and the term had been extended after the plane accident "so that the Lessee's possession of said aircraft shall cover sixty full months."

Appellants' argument also *assumes* that Interpublic was not in default under the lease-option agreement when it purported to exercise the option in July, 1964. But this assumption, too, is erroneous and even appellants now admit their defaults.

Appellants cite, at pages 15 and 16 of their Opening Brief, three cases which are supposed to support their position on this issue: *Sacks v. Hayes*, 146 Cal. App. 2d Supp. 885 (1956); *Peebler v. Seawell*, 122 Cal. App. 2d 503 (1954); and *Murfee v. Porter*, 96 Cal. App. 2d 9 (1950). It is submitted that none of these cases sustains appellants' contentions and none is contrary to the determination reached below in our case.

The *Sacks* case does not involve the issue of admissibility of parol evidence. It involves a written lease-option agreement which called for a rental of $125.00 per month with an option to purchase the property for $13,500. There was no provision in the agreement for any specified number of monthly rentals and the option could be exercised at any time. The lessee was not in

default when she exercised the option to purchase. It is apparent, too, from the facts recited in the case that $125.00 per month represented a fair rental value for the premises and that $13,500 was a fair purchase price.

In our case, of course, the lease-option agreement required sixty monthly rentals to be paid to On Mark, and the lessee had long been in default in its payment of rentals when it purported to exercise the option. The evidence also shows clearly that the parties here had agreed that the option would be exercised at the end of the lease term. Finally, unlike *Sacks,* the option price in the case at bar bore no relationship at all to the value of the property, but was merely a nominal sum which, when added to the required sixty monthly rentals, would equal a predetermined purchase or acquisition cost for the aircraft.

Peebler v. Seawell, 122 Cal. App. 2d 503 (1954), cited by appellants did not involve the issue of admissibility of parol evidence. There the lessee was given an option to purchase the property at the end of the lease term at a price to be negotiated by the lessee and lessor. The lessee purported to exercise the option but the parties could not agree on the price and an arbitrator determined the figure, which was obviously its then market value. The lessee failed to make a down payment of one-third of the purchase price, as provided by the option agreement. The court held, therefore, that the lessee had failed properly to exercise the option, the lessee-lessor relationship continued, and the lessee was

obliged to continue paying rent. There is nothing in this case which even remotely supports appellants' position here.

Nor does *Murfee v. Porter*, 96 Cal. App. 2d 9 (1950), involve any of the issues presented by this appeal. There the court merely held that when a lessee is given an option to purchase at the end of a specified period, the lessee has a reasonable time in which to tender payment when the agreement was silent as to the time of payment.

The other cases cited by appellants at pages 17-20 of their brief are illustrative only of decisions where the court has found that parol evidence was inadmissible because the language of the contracts in question was clear and unambiguous and the facts did not justify going into the circumstances surrounding the making of the agreements. We can present a list of cases ten times as long where the courts have permitted such extrinsic evidence. Such a catalogue of authorities is unnecessary, however, for the general principles applicable to the "parol evidence rule" have already been sufficiently spelled out above in this brief.

Appellants also argue that On Mark, in preparing the documents, could have proposed language to the effect that the option to purchase should not be exercisable on the stated date if for any reason a full sixty months' rent had not been paid. (App. Op. Br. p. 20) It will be remembered, however, that the purpose of the lease-option arrangement was to secure a tax benefit to

Interpublic [Rep. Tr. pp. 241-242], and that appellants themselves requested that the arrangement be set forth in two separate documents. [Rep. Tr. p. 397] To show on the face of the documents a connection between the option and lease agreements might have defeated the anticipated tax benefit; accordingly, it is probably true that appellants would have rejected the very suggestion which Interpublic now makes concerning qualifying language to the option provision.

Appellants' argument suggests a counter argument by appellees. *Appellants* could have insisted that the language of the lease be modified to make it clear that Interpublic's obligations to pay sixty months' rent would be ended if and when it exercised the option to purchase. *Appellants* could have insisted that the lease language be changed to make it clear that the exercise of the option would terminate the requirement of the lease that, after an accident, "the Lease Agreement shall be extended accordingly so that Lessee's possession of said aircraft shall cover sixty full months." [Pltf. Ex. 2] Appellants chose not to request such changes but, instead, signed documents containing language which is ambiguous, uncertain, and inconsistent concerning these matters. They should not now be heard to object to evidence which helped clarify the meaning of the lease-option agreement and which was entirely consistent with the contemplation and intention of the parties.

Appellees submit, therefore, that the trial court properly received parol evidence relating to the circumstances under which the lease-option agreement was executed and the negotiations preceding the execution of the contract.

II.

Irrespective of the Issue of Admissibility of Parol Evidence, Appellants Were Not Entitled to Exercise the Option Because They Were in Default of Their Obligations Under the Lease-Option Agreement.

As the parties have agreed through a formal stipulation, the lease and option agreements constitute a single, entire agreement. [Clk. Tr. pp. 126-135] This stipulation is in accord with the evidence of the circumstances leading to the execution of the documents reviewed above in this brief.

Read by itself, the option agreement contains no recital of any consideration. There was no evidence of any consideration for the option other than the execution of the lease. Accordingly, unless the option agreement is supported by the consideration found in the provisions of the lease, the option would be unenforceable and would create no right in appellants. *Spaulding v. Yovino-Young,* 30 Cal. 2d 138 (1947); *O'Connell v. Lampe,* 206 Cal. 282 (1929).

In *Gordon v. Dufresne,* 205 Cal. 512 (1928), involving a lease for two years at $25.00 per month and an option to purchase for $6000, the court stated (p. 514):

> "[I]t has been many times decided that such agreements are not severable but that, on the contrary, the lease and option form one document, the provisions of which are interdependent, and the covenant to pay rent or do any other acts supports the option as well as the right to occupy the premises."

The necessary reliance by appellants upon the provisions of the lease, for consideration to support the option, is fatal to their claim that they had the right to exercise the option in July, 1964. For, as the trial court found, appellants breached the lease by refusing to accept delivery of the A-26 aircraft after completion of repairs in February, 1963, and by failing to pay the rentals due to appellees thereafter. [Concl. of Law 9, Clk. Tr. pp. 174-175] There was due to On Mark on June 30, 1964, when Interpublic purported to exercise the option, sixteen past monthly rentals, aggregating $123,-952.00, plus interest and other expenses. Further, appellants had treated the lease as having been terminated since February, 1963 [Pltf. Ex. 72]. These matters are not challenged by appellants on this appeal.

It is settled law that the holder of an option to purchase property is not entitled to exercise such right when he is in default of his obligations to the owner of the property. This principle is beyond dispute and needs no citation of authority, but several analogous cases are discussed below.

In *Helbig v. Bonsness*, 277 N.W. 634 (Wis. 1938), the defendant had given to the plaintiff an option to purchase a farm prior to a specified date for $2,500. At the same time a lease was executed for one year, which the plaintiff subsequently breached by failing to pay rent. The plaintiff sought but was denied specific performance of the option, the court commenting as follows:

> "Under the transaction in question the plaintiff's obligation to pay the rent required under the lease constituted virtually the only true consideration for the option, as well as the lease, which, as

> clearly part of one and the same transaction, should be construed and regarded as one agreement. [citations] Consequently the plaintiff's failure to pay any rent constituted such a complete failure of consideration for the option and the lease as to defeat his rights thereunder; . . ."

The court in *Helbig* also pointed out that in attempting to exercise an option, the lessee was seeking specific performance and had failed to satisfy the well-established equitable principle that "he who seeks equity must do equity."

In *Polish-American Volunteer, etc. v. Roman Catholic Church, etc.*, 139 Atl. 709 (N.J. Eq. 1927), the court denied specific performance of an option to purchase real property because the lessee-option holder had breached and forfeited the lease and "it necessarily follows, the continuance thereof and an abiding by its terms on the part of the complainant [was necessary to keep alive the option]" 139 Atl. 711 (Emphasis added).

The leading California case is *Mott v. Cline*, 200 Cal. 434 (1927). There the lease provided for a yearly rental of $250.00 to be paid on December 20th of each year; and contained an option provision whereby the lessee could purchase the premises at any time during the term for $4,100.00. The lessee had paid all yearly rentals due for some nine years when he gave notice of the exercise of his option on May 28, 1923. The rental for the year 1923 was not then due and would not become due until December 20, 1923. The court held in *Mott* that the lease was not entitled to exercise the option because he had failed to tender the rental for the four months' use of the premises during that year—although the rental was not yet due under the lease provisions.

Such failure to tender rent for the use of the premises was held to be "a complete bar and answer to his [lessee's] demand for specific performance of the option provision." (200 Cal. 450, 451).

The *Mott* case was followed in the more recent case of *Silveira v. Ohm,* 33 Cal. 2d 272 (1949), and states the prevailing rule in other jurisdictions where this question has been considered. See, for example, *Trotter v. Lewis,* 43 Atl. 2d 329 (Md. 1946).

California Civil Code, § 3392, codifies the decisional law by requiring one who seeks specific performance of a contract to have performed all conditions precedent thereto.

Appellees submit, therefore, that despite any other matter, the defaults and breaches by appellants of the lease-option agreement for sixteen months immediately prior to attempting to exercise the option constitute an absolute bar to appellants' claim.

The conduct of appellants in dealing with the option was typical of their utter disregard for the rights of On Mark and their continuous efforts to gain an unfair advantage. At the very time they attempted to exercise the option, appellants were maintaining—and had maintained for more than sixteen months—that the lease was terminated and they had no further obligations under it to On Mark. In the vernacular, appellants were really trying "to have their cake and eat it, too." They had breached and claimed a termination of one part of the integrated agreement (the lease) and yet sought to obtain the benefit of the other portion (the option). This, of course, they had no legal or moral right to do.

III.

The Court's Finding That the Parties' Intent Was That the Option Was Not Exercisable Until the Expiration of the Lease Term Is Fully Supported by the Overwhelming Evidence.

Appellants argue that there is no evidence to support the trial court's finding that the parties intended and agreed that before Interpublic was entitled to exercise the option, and as a condition thereto, it was required to pay a full sixty months' rent. (App. Op. Br. p. 21) Then appellants set forth a four-page summary of some of the evidence introduced at the trial, most of which evidence directly supports the trial court's finding. (App. Op. Br. pp. 21-25)

Appellees have discussed above in this brief some of the evidence received by the trial court concerning the parties' intention and agreement on this issue. Without repeating all of such matters, it is submitted that such evidence, including the following, fully supports the trial court's findings on this issue.

At the beginning of negotiations between the parties it was contemplated that Interpublic would "acquire" the A-26 aircraft for an acquisition or purchase price of between $385,000 and $400,000. The actual price of the plane was determined, according to Harder, by pricing each of the components specified by Interpublic to be included in the modified aircraft. [Rep. Tr. p. 897] From the component prices quoted to him by On Mark, Harder developed a "budget" around March, 1959 of $420,000 for the purchase of the plane by Interpublic. [Rep. Tr. pp. 899-900]

In April or May, 1959, Denny of On Mark quoted a sales price of $400,000 for the aircraft to Harder.

Harder claimed that his was too much money. The proposed sales price was then lowered to $385,000 by On Mark's reducing its "markups" on certain electronic and radio equipment to be incorporated into the aircraft. [Rep. Tr. p. 232] Harder agreed that this was a reasonable price and said he would recommend that the proposal be accepted by Interpublic. [Rep. Tr. p. 232]

Although the final form of the transaction was a lease-option agreement, the parties continued to talk in terms of a "cash purchase price" of $385,000 until almost the eve of execution of the lease-option documents. Harder, for example, testified that when he came to California in July, 1959, he brought with him and discussed with On Mark a "final indicated cash purchase price" of $385,000. [Rep. Tr. p. 925] Denny told Harder that On Mark would sell the plane to Interpublic for that figure. [Rep. Tr. p. 921]

The reason, of course, that the transaction finally was cast in terms of a lease-option agreement was Interpublic's desire not to make such an immediate cash outlay and its belief that a lease-option arrangement would be advantageous from a tax standpoint. [Rep. Tr. p. 240] On Mark was willing to proceed that way so long as it came out financially as well off as an outright sale. [Rep. Tr. pp. 241-242]

It is undisputed that the rental figure and the option price were established by a formula which was applied to a $385,000 proposed purchase price on a sixty-months' rental basis. [Rep. Tr. p. 251] The $7,747.00 monthly rental and the $32,950 option price, thus, were agreed upon only because upon completion of sixty months' rent and the payment of a final sum of $32,-950, On Mark would be in the same financial position as

if it had made an outright cash sale of the plane for $385,000.

The fact is that the total consideration of $497,770, which On Mark was to receive for sixty months' rental and the $32,950 option price, is within a few thousand dollars of the originally discussed purchase price of $385,000, plus interest thereon at 6% per year, amortized over a sixty-month period.

When Denny had received the $7,747.00 rental figure and the $32,950 option price from the leasing company, he met with Harder and told him that "On Mark would give [Interpublic] an option purchase price *at the end of the lease* when the sixty-months rentals had been paid, for $32,950." [Rep. Tr. p. 272] (Emphasis added). Harder agreed and said he would recommend its approval to Interpublic. [Rep. Tr. p. 273]

Harder, president of Interpublic, clearly disclosed his intention that the lease-option agreement required sixty rental payments before the option could be exercised. As set forth above in our Statement of the Case, he testified on several occasions that under the lease-option arrangement Interpublic must have the right to "recapture" or "receive" the aircraft "*at the end*" of the lease term. [Rep. Tr. pp. 802-803, 804] He also testified that when he received the lease rental and option price figures he made a computation which showed that the total rentals and the option price came to approximately half a million dollars. [Rep. Tr. p. 1416] He had no knowledge of how the $32,950 option price was determined [Rep. Tr. p. 1416], but he was interested only in what the total rental and option cost for the plane would be to Interpublic.

In the light of such undisputed evidence, it cannot be denied that the parties intended at all times that Interpublic would acquire the plane for a certain over-all price to be paid to On Mark. On Mark was thus to be reimbursed for the approximately $385,000 it was to spend to remanufacture the plane according to Interpublic's specifications, borrowing $375,000 at a minimum of 5% interest from the bank to finance its costs. [Rep. Tr. p. 264; SFB Ex. 1] It is equally clear that the option price of $32,950 was considered a "tag on" nominal consideration which had no relationship whatever to the expected value of the plane in July or August, 1964; it was merely the figure which, when added to sixty monthly rentals of $7,747.00, would equal the amortized cost, plus interest, over a five-year period of an aircraft having a predetermined cash value in July, 1959, of $385,000.

It is obvious, too, that the intention and contemplation of the parties, that On Mark would receive the predetermined over-all price during an extended term from Interpublic, would be defeated unless all of the sixty months rentals were paid to On Mark. That is why the lease required Interpublic to pay "sixty monthly rental payments" of $7,747.00 each, and why the lease provided for an extension of the terms in the event of an accident to the plane "so that Lessee's possession of said aircraft shall cover sixty full months." [Pltf. Ex. 2]

It is not true, as appellants claim, that the extrinsic evidence concerning the intention of the parties constituted "general statements made in preliminary discussions many weeks" before the execution of the lease option agreement. (App. Op. Br. p. 26) The statements of the witnesses were quite specific and, as pointed out

above, were made right down to a time just before the agreements were signed.

Appellants disagree with the trial court's finding that the dates July 15 to August 15, 1964, were put into the option agreement because the original delivery date for delivery of the aircraft to Interpublic was October 14, 1959; that since the last three months' rent were paid in advance there were then fifty-seven months beyond October 15, 1959 left of the sixty month term; and that fifty-seven months beyond October 15, 1959 would be July 15, 1964. [Find. 9(c); Clk. Tr. p. 163] Appellants claim that such a finding is "fallacious" because Denny "unequivocally stated" that at the time of the execution of the lease-option agreement in July, 1959, it was not contemplated that the plane would be delivered by mid-October. (App. Op. Br. p. 27) It is interesting to observe that, in making this argument, appellants rely upon a portion of the extrinsic evidence whose admission they claim was erroneous.

There are, however, several difficulties with appellants' argument. First, Denny did not "unequivocally" state that On Mark did not contemplate delivery of the plane in October, 1959. The testimony from Denny's deposition on this point quoted in appellants' brief is that *normally* it takes approximately five months to remanufacture and deliver this kind of an executive aircraft. (App. Op. Br. pp. 27-28) The normal time for delivery is not controlling over the specific date agreed upon by the parties. Denny testified at the trial that the October delivery date was "pretty tight" but he did not state that it was impossible to meet it. [Rep. Tr. p. 259]

Secondly, the court found that, *after* execution of the lease-option agreement, Interpublic requested changes

and additions to the specifications for the A-26 aircraft and that as a result thereof such delivery of the aircraft was delayed from mid-October, 1959, as originally anticipated by the parties, to December 18, 1959. This delay in delivery was found not to be the fault of On Mark. [Find. 10; Clk. Tr. p. 164]

Thirdly, even after the changes and additions to the specifications by Interpublic, the parties *again* expressed their intention to meet an October delivery date but agreed that On Mark would be excused from such obligation if delivery was delayed by reasons beyond its control. [Pltf. Ex. 4]

Respondents submit, therefore, that the finding of the trial court, that the parties intended that sixty months' rent be paid before the option was exercisable, is fully supported by the lease-option agreement and the evidence.

Appellants point out that the lease "included numerous conditions involving considerable expense for the lessee, such as the obligation to maintain the aircraft, to insure it, and to pay taxes levied against it." (App. Op. Br. p. 26)

The fact that Interpublic incurred the normal expenses of an owner (*e.g.* insurance, maintenance costs, ordinary repairs, taxes) as it operated the aircraft under the lease, is additional proof that the parties looked upon their arrangement as one in which appellants were, in effect, purchasing the aircraft for a predetermined price as they made payments under the lease. That predetermined price, as shown above, was broken down for Interpublic's convenience into sixty monthly payments and a final so-called "option price" of $32,950.

The parties never intended or contemplated that Interpublic would become the owner of the aircraft before the full price, including the sixty payments of rent, had been received by On Mark.

Appellants argue that no injustice is done if Interpublic is permitted to purchase the plane for the option price, without paying sixty months' rent after an accident and repairs to the aircraft. (App. Op. Br. p. 30) The argument will not stand analysis.

If a damaged aircraft is properly repaired, there is no necessary diminution in its value; and even if there might be, there is utterly no relationship between such diminished value and the option price of $32,950. Further, during the period of repair, Interpublic suffered no damage or expense, for its payments to On Mark were suspended. Its aircraft needs were fully met by the leasing from a third party of another aircraft at a rental less than it had paid to On Mark. [Find. 26; Clk. Tr. p. 170] On Mark, of course, lost eight months' rent, or $61,976.00 during the repair period which, if appellants have their way, would be denied to On Mark forever, despite the fact that the lease provides under these circumstances for an extension of the lease term for an additional eight months. If appellants do not really see in these matters any injustice to On Mark, they can hardly claim to have given us an impartial judgment.

Appellees submit, therefore, that the lease and option agreement, construed together, and the evidence concerning the circumstances surrounding the negotiation and execution of the agreement, overwhelmingly support the trial court's determination that the parties intended that the option was not exercisable until Interpublic had paid sixty monthly rentals.

IV.

Appellees Were Entitled to All of the Damages Awarded by the Trial Court.

Appellants' entire argument in this portion of their brief (App. Op. Br. pp. 31-42) is based upon their claim that they had the right to exercise the option to purchase the A-26 aircraft in July, 1964. Responsibility for rentals and maintenance costs beyond July 15, 1964, were cut off, appellants claim, because the trial court should have found that the option was exercisable on that date.

We have shown in the immediately preceding portion of this brief the errors in the premise upon which this claim of appellants is based and have demonstrated, we believe, that the trial court correctly determined that Interpublic had no right on July 15, 1964 to exercise the option to purchase the A-26 aircraft. Accordingly, we refer the Court to our earlier analysis of this issue and incorporate herein the citation of evidence and authorities, and the arguments and discussion, set forth therein.

Under the lease Interpublic was to have possession of the aircraft for a full sixty months and was obliged to pay sixty rentals of $7,747.00 each. Therefore, had Interpublic not breached the agreement, On Mark would have received the sum of $464,820.00 from Interpublic in rentals. In fact, however, Interpublic paid only sums aggregating $263,398.00, leaving a difference of $201,-422.00. The trial court held, therefore, that On Mark was entitled to a judgment for $201,422.00, representing payments accruing under the lease from February 27, 1963 (the date when Interpublic should have taken redelivery of the aircraft after it was repaired) until April

26, 1965 (the end of the lease term as extended by the period of repairs). [Concl. of Law 15; Clk. Tr. p. 175]

On Mark was also awarded the sum of $10,891.90, representing the costs incurred by it to maintain and store the aircraft after Interpublic's wrongful refusal to accept redelivery of the plane [Concl. of Law 16; Clk. Tr. p. 176]. These costs would have been paid by Interpublic had it not defaulted under the lease, for it was obliged to "bear all maintenance costs with respect to said aircraft" under that agreement. [Find. 27; Clk. Tr. p. 170]

It is clear, therefore, that On Mark was awarded in the trial court's judgment not a penny more than it would have received had Interpublic not breached the lease-option agreement. There was, therefore, no violation of the principle which appellants cite, that damages for breach of contract may not exceed that to which the innocent party would have received by full performance of the agreement.

Appellants' argument that the exercise of the option extinguished their obligation to pay rent has already been answered above in this brief. The argument is apparently not taken too seriously even by appellants for they admit that in view of Interpublic's default, "On Mark did not have to deliver the airplane." (App. Op. Br. p. 35) This being so, it is difficult to see how there could be a "merger" of the lessee's and owner's interest in the aircraft, or how the obligation for future rentals was extinguished. Appellants, of course, never tendered or offered to pay the past due rentals aggregating $123,952.00 at the time they purported to exercise the option, or at any other time. Their admitted breach of the lease-option agreement continues to this day.

V.

Appellants Were Not Entitled to Offset the "Value of the Option" Against Rental Payments.

Appellants argue that the trial court erred by not giving Interpublic "credit" for the "value of the option" on July 15, 1964, when Interpublic purported to exercise its right to purchase the aircraft. They contend that the plane was then worth $125,000, that therefore the option to purchase at $32,950 was worth $92,050, and that the latter amount should have been offset against the damages awarded to On Mark. (App. Op. Br. pp. 37-42) The trial court considered this same argument of appellants and rejected it upon its findings that:

(1) Interpublic had no right to exercise the option on July 15, 1964, since the lease-option term had been extended by the length of time required to repair the plane, that is, many months after July 15, 1964. [Find. 30; Clk. Tr. pp. 171-172]

(2) Interpublic was not entitled to exercise the option on July 15, 1964 because it was then in default of the lease-option agreement. [Find. 30; Clk. Tr. pp. 171-172]

(3) Interpublic was not entitled to exercise the option until it had paid sixty months' rent to On Mark. [Find. 30; Clk. Tr. pp. 171-172]

Appellants' further error lies in their ignoring the fact that an option is not a binding agreement to sell the subject matter of the option but merely an offer to sell on prescribed terms. *Glascock v. Sukumlyn*, 131 Cal. App. 2d 587 (1955). Unless the offer is accepted within the time limited and according to its terms, it is of no

force for any purpose. *Upton v. Travelers Insurance Co.*, 179 Cal. 727, 729 (1919).

On Mark's offer to sell the aircraft to Interpublic for $32,950 was rendered irrevocable, in other words an "option," only by the consideration of Interpublic's promises contained in the lease. On Mark would have been obligated to sell and Interpublic obligated to purchase the A-26 aircraft only if Interpublic accepted the offer according to its terms. This is basic contract law which needs no citation of authority. In this case, the terms of the offer included performance as promised under the lease, a promise which Interpublic now admits it did not keep. Therefore, Interpublic's attempt on July 15, 1964 to accept On Mark's offer to sell the aircraft was ineffective; no obligation to sell or purchase ever arose and the option was "of no force for any purpose."

A review of the facts demonstrates that On Mark is in no better position because of the judgment of the trial court than it would have been had the parties' agreements been fully carried out. On Mark fully performed each of its obligations under the lease. It remanufactured a war surplus plane into an executive aircraft at a cost of some $385,000. It also fully restored the aircraft to an airworthy condition. Thus, the following words of an authority quoted by appellants fully support On Mark's legal position herein: "If the party complaining has completely performed all the promises and conditions incumbent on him under the contract, then he recovers the full value of the benefits which he would have realized from the other's performance." *McCormick, Damages,* Section 143 (App. Op. Br. p. 39)

The trial court correctly awarded On Mark the full value of what would have accrued to it under the lease — the unpaid rentals and interest thereon. The fact that the option could not be properly exercised did not save On Mark from the expense of any performance, as appellants contend. As we have shown, On Mark never became obliged to sell the aircraft to Interpublic for $32,-950 because of Interpublic's breach of its obligations. Under the agreement of the parties, at the end of the lease term as extended, and after paying all rentals as due, Interpublic could have returned possession of the plane to On Mark, and the transaction would have been closed. Certainly appellants do not contend that had this occurred they would have been entitled to a rebate or refund, representing the difference between the then value of the plane and the option price. It is incomprehensible how appellants can now claim a credit in a like amount after admittedly defaulting under the lease.

It is not quite accurate, as appellants contend, that after Interpublic's refusal to accept redelivery of the plane, On Mark "enjoyed full ownership" of the aircraft and used it freely for personal travel and in its business. (App. Op. Br. p. 38) The plane had to be flown to keep it in a good operating condition. [Find. 27; Clk. Tr. p. 170] It is not particularly relevant, then, that some of the flights by On Mark personnel were for business or personal reasons; in fact, many were test flights or flights in which the aircraft was demonstrated to potential buyers. [Pltf. Ex. 76; Rep. Tr. pp. 362-363]

Although appellants were not legally entitled to it, in order to "do equity," the trial court held that Interpublic could exercise the option to purchase the aircraft between August 10, 1965 and September 9, 1965 (*i.e.*, within a month's period after the filing of the Judgment herein), upon payment of the amounts found to be due to On Mark. [Concl. of Law 17; Clk. Tr. p. 176] Appellants, however, failed to take advantage of this offer and now claim that by granting to them this equitable consideration the trial court "wrote a new contract for the parties" and deprived them of the benefits of the option agreement as negotiated. (App. Op. Br. p. 38) This is simply not true.

Appellants negotiated only for the right to acquire title to the plane after paying sixty months' rental and the option price. Interpublic had no right to "exercise" the option while in default and then demand a "credit" against damages caused by its own contract breach. Upon complying with the lease provisions, Interpublic had a right under the "option" either to purchase the plane or to refuse to purchase it. But it certainly had no right to do neither and then demand a "credit" for the difference between the option price and the then value of the aircraft. To grant appellants the right they now claim would, indeed, be rewriting the agreement between the parties in a manner clearly contrary to their intentions and to settled principles of law.

VI.

The Judgment in Favor of Appellee Security First National Bank Is Correct and Should Be Affirmed.

To secure a loan from Security First National Bank ("Security Bank") for $375,000 to finance the cost of remanufacturing the A-26 aircraft, On Mark assigned to the bank all rentals due under the lease with Interpublic. [Pltf. Ex. 9.] These rentals were paid directly by Interpublic to the bank until June, 1962. Thereafter, On Mark made additional payments of principal and interest directly to Security Bank, but at the time of the trial herein the principal sum of $118,857.10 was still due to the bank plus interest at the rate of 5% per annum from November, 1964. [Find. 31; Clk. Tr. p. 172.]

Interpublic consented in writing to the assignment and payment of the lease rentals to the bank and agreed in its "Receipt and Consent to Assignment" that Interpublic would not terminate or consent to the termination of the lease without the written consent of the bank. [Pltf. Ex. 9]

Of the sum of $201,422.00 awarded as damages to On Mark, the trial court directed that said amount of $118.857.10 be paid by appellants directly to Security Bank, leaving a balance of $82,564.90, plus interest, to be paid to On Mark under the judgment. [Concl. of Law 15; Clk. Tr. p. 175; Judgment, Clk. Tr. pp. 182-184]

Appellants contend that the portion of the judgment in favor of Security Bank is erroneous because it includes rentals that accrued after the exercise of the option. We have already shown, as the trial court found, that appellants could not and did not effectively exer-

cise the option, and that the rentals would continue to accrue until sixty monthly payments had been paid by Interpublic. Accordingly, the judgment in favor of Security Bank is fully supported by the evidence and the law and should be affirmed on this appeal.

Appellants next argue that there was no valid consideration to support an independent obligation that appellants would not terminate the lease without the consent of the bank prior to payment of all rentals due under the lease. In making this contention, appellants attack the trial court's findings that Interpublic reasonably could have expected that in reliance upon its consent to the assignment and its promise not to terminate the lease, the bank would act to its detriment; that the bank, in fact, did so act when it released one of the personal guarantors of the promissory note secured by such assignment of the lease; that such release of the guarantor was a detriment suffered by the bank and constituted a legal consideration for Interpublic's agreement not to terminate the lease; and that Interpublic was estopped to deny that it would not terminate the lease without the consent of the bank. [Finds. 34, 35, Clk. Tr. pp. 172-173; Concl. of Law 11, 12, Clk. Tr. p. 175]

The evidence showed that the general substance of the financing arrangements for remanufacturing the A-26 aircraft was communicated by Denny of On Mark to Interpublic's Harder; that the assignment was executed by Denny and mailed to Interpublic; and that only after execution of the "Receipt and Consent to Assignment" by Interpublic, and its return to the bank, did the bank release Mr. Doheny from his personal guarantee. [Rep. Tr. pp. 1057-1059; SFB Exs. 7, 8, 9]

Appellants argue that since Interpublic was never given actual notice of Security Bank's release of the third party guarantor, such release cannot be effective as consideration to make the consent to assignment a binding agreement. (App. Op. Br. p. 47) This contention ignores the doctrine of promissory estoppel and the fact that such an estoppel can be effective even without specific knowledge or notice on the part of the promissor.

Clearly applicable is Section 90 of the Restatement of Contracts, which states:

> "A promise which the promisor should reasonably expect to induce action or forebearance of a definite and substantial character on the part of the promisee and which does induce such action or forbearance is binding if injustice can be avoided only by enforcement of the promise."

As pointed out by the California Supreme Court in *Drennan v. Star Paving Co.*, 51 Cal. 2d 409 (1958):

> "The very purpose of section 90 is to make a promise binding even though there was no consideration 'in the sense of something that is bargained for and given in exchange.'" (51 Cal. 2d at 414).

These principles are squarely applicable to the instant case. Here appellants have made a promise which constitutes such a substantial part of the entire loan transaction that there can be no question that appellants reasonably expected that their promise not to terminate or modify the lease agreement would induce reliance on the part of Security Bank. This is particularly true because if the bank had relied solely upon the assign-

ment of rents, the *consent* of appellants would not have been needed. But, where the bank sought and received an agreement not to terminate or modify the lease, it is obvious that it had every expectation of relying upon this very covenant. The trial court so found. [Find. 35; Clk. Tr. p. 173]

In this connection, it is significant to note that there is no provision in Section 90 of the Restatement of Contracts which requires that the party relying communicate to the promisor that there will be reliance, or the nature or type of reliance. Nor is there any requirement that the promisor have such knowledge.

Although there are no California decisions dealing squarely with the issue of whether an essential element of promissory estoppel is specific knowledge by the promisor of the nature of the promisee's reliance, there is at least one very recent decision applying the doctrine where it is clear that the promisor had no knowledge of the nature of reliance which his promise induced. Thus, in *Greene v. Wilson*, 208 Cal. App. 2d 852 (1962), the trial court found as follows:

> "The plaintiff Greene knew that Doris Wilson, her attorneys and the persons who later lent money to her would rely on those statements and representations. In reliance thereon, she and her attorneys made no attempt to protect her from that liability in the final judgment of divorce, and persons to whom the statements and representations were made 'advanced money to and guaranteed loans to Doris Wilson in excess of $60,000.00.' In reliance on such statements and representations of the plaintiff Greene, Doris Wilson 'purchased thousands of dollars of new equipment for Tri-

> Color Laboratories and made representations of her own financial condition to equipment sellers and trade creditors,' on which representations such creditors relied. In reliance on the plaintiffs' statements and representations, Doris Wilson represented to the subsequent purchasers of the business that Mr. Greene had no claims against the business and the purchasers relied on such representations." (208 Cal. App. 2d at 855).

In *Greene* a creditor of defendant Doris Wilson's husband had promised that he would never assert any claim against her or any property she might acquire in a prior divorce action. The recitation of facts and the findings of the trial court show that there was no communication to the promisor of the nature of the promisee's reliance, and further that the promisor did not know of the nature of the promisee's reliance. Yet, Section 90 of the Restatement was applied and a promissory estoppel was established.

Greene directly supports the position of appellee bank herein that, in order to be bound by its promise to the bank, it was not necessary that Interpublic have knowledge that the precise type of reliance its promise induced would be the release of the third party guarantor.

Appellants claim that the striking from the "Receipt and Consent to Assignment" of certain words, to the effect that Interpublic gave its consent in order to induce the bank to make the loan to On Mark, proves that the bank could not thereby have been induced to release the guarantor. But this fact proves no such thing. Interpublic apparently was not willing to agree that its

consent was the inducement to the making of the loan to On Mark, probably because the loan then had already been made. But Interpublic was willing to, and it did, promise the bank not to terminate the lease. Given such a promise, it is not at all unreasonable to expect that the bank would rely upon it. This is exactly what Security Bank did when it released the guarantor. The trial court properly found that under these circumstances Interpublic should reasonably have expected that the bank would act to its detriment in reliance upon Interpublic's consent and agreement.

Appellants have cited *Williams v. Hasshagen*, 166 Cal. 386 (1913) and *Simmons v. California Institute of Technology*, 34 Cal. 2d 264 (1949) for the proposition that conventional consideration for a promise must be an act or a return promise bargained for and given in exchange for the promise.

The proposition is, of course, correct. However, it has no application to the instant case for the simple reason that appellee bank does not contend that consideration for execution of the "Receipt and Consent to Assignment" was present in the conventional sense. To the contrary, as the bank has urged, and as the trial court found, Section 90 of the Restatement of Contracts is applicable to make appellants' promises enforceable.

Appellants attempt to avoid the trial court's finding of promissory estoppel by arguing that facts were present which could have led the trial court to a contrary result. (App. Op. Br. pp. 48, 49) The error of this argument is perhaps best illustrated by appellants' misplaced reliance on *Kelley v. Rouse*, 188 Cal. App. 2d 92 (1961). In that case the court held Section 90 of

the Restatement of Contracts inapplicable where the *trial court found:* (a) no reasonable reliance; and (b) no detrimental change of position. However, since the court below has found both reasonable reliance and detrimental change of position by Security First Bank. *Kelley v. Rouse* has no application to the case at bar.

Conclusion.

The trial court found on overwhelming evidence that appellants breached the lease-option agreement by refusing to accept redelivery of the A-26 aircraft and by refusing to make rental payments aggregating $201,422. Appellants do not here dispute that they breached the lease-option agreement or that they caused substantial damages to On Mark; but they attack the judgment below on the narrow ground of alleged error by the District Court's admitting evidence of the circumstances surrounding the parties' making of their agreement.

Appellants' argument that extrinsic evidence was inadmissible ignores all of the provisions of the lease-option agreement except the dates of July 15 to August 15, 1964, found in the option portion of that integrated agreement. Blind to all but these few words, appellants claim that they are not ambiguous or uncertain and, therefore, the trial court as a matter of law, had no right to hear or consider the circumstances in which the words were used. Appellants also claim that the extrinsic evidence does not support the trial court's determination that the option was not exercisable in July, 1964.

Appellees submit that the trial court had not only the right but the duty to consider the evidence presented by both sides on this issue.

The trial court properly found that the provisions of the lease, requiring payment of sixty months' rent and, in the event of an accident to the plane, extending the term so that the lessee would have possession of the aircraft for a full sixty months, were inconsistent with the July 15 to August 15 option period. At the very least, the matter was uncertain and ambiguous, permitting the consideration of extrinsic evidence.

The lease provisions, as well as the evidence of the circumstances surrounding the execution of the agreement and the intention of the parties, showed without any doubt that appellants had no right to exercise the option until they had paid sixty monthly rentals and until the end of the extended term of the lease. Neither of these events had occurred when Interpublic, then in default for more than sixteen months and owing more than $123,000 in rentals, purported to exercise the option. The trial court properly determined, therefore, that Interpublic had no right to exercise the option to purchase the aircraft in July, 1964.

All of the other claims of appellants fall with a determination that they were not entitled to exercise the option in July, 1964. Lease rentals accruing after that date, as well as the cost of maintenance and repair, were all due and owing from appellants to On Mark under the lease. Appellants had no right to offset against rentals due the "value of the option" for they were not entitled to exercise the option until all of the sixty monthly rentals had been paid; in any event, the lease-option agreement did not give appellants the right to receive any such "credit" or "offset".

Acceptance of appellants' arguments would result in a "windfall" of more than $180,000 to those who inten-

tionally breached their contract and have sought by every stratagem to avoid their solemn agreement. It would result in a loss to On Mark of a similar sum which was expended in manufacturing a plane for appellants' own account. Further, such a result would set aside a judgment which is fair and equitable, which is based on overwhelming evidence, and which is in accord with the decisional and statutory law of this State.

Appellees, therefore, urge the Court to affirm the judgment below.

Dated: July 12, 1966.

Respectfully submitted,

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Certificate.

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those Rules.

Ira M. Price II

No. 20645

United States Court of Appeals

FOR THE NINTH CIRCUIT

The Interpublic Group of Companies, Inc., a corporation,

McCann-Erickson, Inc., a corporation, and Interpublic Inc., a corporation,

Appellants,

vs.

On Mark Engineering Co., a corporation, and Security First National Bank,

Appellees.

REPLY BRIEF OF APPELLANTS

The Interpublic Group of Companies, Inc., A Corporation,
McCann-Erickson, Inc., A Corporation, and Interpublic Inc., A Corporation.

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Subject Index

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No. 20645

United States Court of Appeals

FOR THE NINTH CIRCUIT

THE INTERPUBLIC GROUP OF COMPANIES, INC., a corporation,

MCCANN-ERICKSON, INC., a corporation, and INTERPUBLIC INC., a corporation,

Appellants,

vs.

ON MARK ENGINEERING CO., a corporation, and SECURITY FIRST NATIONAL BANK,

Appellees.

REPLY BRIEF OF APPELLANTS

The Interpublic Group of Companies, Inc., A Corporation, McCann-Erickson, Inc., A Corporation, and Interpublic Inc., A Corporation.

SUMMARY OF ARGUMENT

Appellees' contention that, even though a contract provision is perfectly clear and plain, parol evidence is admissible if such provision "is possibly at odds with the over-all intent of the parties" is completely unsupportable. The legal effect of the clear provisions of the lease option agreement was that the rental obligation was terminable by exercise of the option between the dates specified. The fact that a lease option agreement states

the term of the lease and also specifies a date for exercise of the option which may permit such exercise prior to the end of the term does not create an ambiguity justifying the admissibility of parol evidence.

In any event appellees have not shown that there is any support in the evidence for the court's finding that it was the parties' intent that the option not be exercisable until after the payment of sixty months' rent. Their argument is based only upon what their principal witness did not say, rather than what he did say, and upon two exhibits which do not support their interpretation.

Appellants do not challenge the trial court's findings that Interpublic was in default under the lease. Such default, however, should not have the effect of conferring upon On Mark the right to damages beyond the time the lease agreement was terminable according to its terms. Similarly if Interpublic's default excused On Mark from performance of an obligation it would otherwise have been called upon to meet, Interpublic is entitled to a credit for the value of that performance.

The appellee, Security Bank, acquired no rights in excess of those of On Mark, its assignor. The doctrine of promissory estoppel may not be invoked where the promisor expressly makes known to the promisee that his consent is not intended to induce the latter to take any action at all.

I. NO AMBIGUITY JUSTIFYING PAROL EVIDENCE WAS SHOWN.

In appellants' opening brief (pp. 12-21) it is demonstrated that the legal effect of the clear provisions of the

lease option agreement was that the rental obligation was terminable by the exercise of the option between the dates specified therein. Appellees' purported answer to this demonstration [Appellees' Br. pp. 15-32] depends primarily upon two untenable premises.

The first untenable premise in appellees' argument is that "even though a contract provision is *perfectly clear and plain,* parol evidence is admissible if such provision *is possibly* at odds with the over-all intent of the parties as expressed in the remainder of the agreements and the circumstances surrounding the making of the contract." [Appellees' Br. p. 26] (Emphasis added.)

The second untenable premise is that construing the lease and option as a single lease option agreement, there is an inconsistency between a stated term of the lease and a date specified for exercise of the option which occurs before the end of the term.

Appellees' claim that a contract provision which is "perfectly clear and plain" may be varied by parol because it is "possibly at odds" with some presumed overall intent of the parties, is not supported by any authority cited. The requirement is that "the language used is fairly susceptible to one of two constructions," *Barham v. Barham,* 33 Cal.2d 416, 422 (1949). This statement of the rule is quoted in appellees' brief (p. 23) and is irreconcilable with appellees' contention.

Appellants cited several California authorities applying the standard stated in *Barham* to contract provisions relating to time. These cases [Appellants' Op. Br. pp. 19-20] hold that contract provisions clearly establishing a time for peformance or exercise of rights cannot be varied

by parol. Appellees simply ignore these cases which state the long established policy of the California courts prohibiting parol testimony varying "perfectly clear and plain" contract provisions with respect to time. The contract provision in question providing for the exercise of the option "between July 15, 1964 and August 15, 1964" is not "fairly susceptible of one of two constructions." It cannot mean anything other than that the exercise of the option is to be between said dates.

In addition to adopting a wholly unsupportable standard for determining the existence of uncertainty justifying parol, appellees submit a fallacious demonstration of alleged ambiguity. Appellees make much of the fact that though two documents were employed, they constituted a single entire agreement. Appellants have never contended the contrary. The fact, however, that the documents must be construed together does not create inconsistency where there is none. The arguments and authorities of appellants, moreover, all contemplate a single contract embodying both lease and option terms.

The alleged inconsistency from which appellees assume ambiguity is that the lease establishes a term of sixty months and provides for payment of the stipulated rental for the full term, whereas the option provision specifies dates certain when the option may be exercised which may be reached before the term ends.

The provisions dealing with the term, however, are no different from the provisions in any other lease establishing a term. Paragraph 1 of Plaintiff's Exhibit 2 simply and directly states that the term of the lease is sixty months and the rental is $7,747 per month. There

is nothing about the terminology used that suggests, any more than any other lease form would suggest, that extinguishment of the lease prior to the end of the term may not extinguish the obligation to pay rental during the rest of the term. Likewise, the provisions of Paragraph 5-D insuring the lessee possession for the full sixty month term in the event loss of possession is occasioned by repairs made by the lessor, does not purport to deal with the question of extinguishment of the lease prior to the expiration of sixty months.

Appellees claim [Appellees' Br. p. 29] that appellants beg the question because we assume that the option provision "gave to Interpublic the right to exercise the option before the end of the lease term and prior to payment of sixty months' rent." No such assumption whatever is involved in appellants' argument. Such rather is demonstrated to be the clear, legal effect of the lease and option provisions. As pointed out in appellants' opening brief (pp. 27-28), unless extraordinary circumstances enabled appellees to deliver the aircraft in less than the five months it "normally" took to deliver the aircraft, the stated dates for the exercise of the option would fall prior to the end of the term. The lease option, therefore, provided for an option normally exercisable prior to the end of the term. This circumstance brought into operation the rule of law that in such case "the lessor is not entitled to rent after the option to purchase is exercised unless there is in the lease an express stipulation therefor," *Sacks v. Hayes,* 146 Cal.App.2d Supp. 885, 887 (1956). There is no express stipulation for the payment of rent after the exercise of the option. This legal effect is, of course, as much a subject of the parol evi-

dence rule as an express provision that no rent should thereafter be payable. *Buffalo Arms, Inc. v. Remler Co.*, 179 Cal.App.2d 700 (1960).

Despite appellees' assertion to the contrary, the authorities relied upon by appellants do involve leases that specified a given number of monthly rentals. In the *Sacks* case, the finding of the trial court was that "the parties entered into an agreement to lease the premises in question for one year commencing September 1, 1955" at a monthly rental of $125. On appeal, the court found that this was in error and that "the lease was for a period of fourteen months rather than one year." (p. 887) Moreover, the rule stated in the *Sacks* case assumes that there must be a term which extends beyond the exercise of the option, otherwise there would be no occasion to consider extinguishment of such term.

II. APPELLEES STILL HAVE NOT DEMONSTRATED THAT THERE IS EVIDENTIARY SUPPORT FOR COURT'S FINDING THAT PARTIES' INTENT WAS THAT OPTION NOT BE EXERCISABLE UNTIL PAYMENT OF SIXTY MONTHS' RENT.

The trial court found that the "option period" July 15 to August 15, 1964 was determined by On Mark and Interpublic as follows: The date contemplated by the parties for delivery of the aircraft to Interpublic was October 14, 1959; since the last three months' rent was to be paid in advance, there would remain fifty-seven months beyond October 15, 1959 of a full sixty months' term; and fifty-seven months beyond October 15, 1959 would be July 15, 1964. [Fndg. 9(c), Clk. Tr. 163.]

However, the appellants pointed out in their opening brief (p. 27) that the uncontradicted testimony of Robert O. Denny, President of On Mark, was to the effect that at the time the agreement was executed, it was not in fact contemplated that delivery of the aircraft could be made by mid-October 1959. Knowing that the term of the lease was to start from the date of delivery and that delivery would not take place until about mid-December 1959, On Mark nonetheless drew up and executed the agreement calling for exercise of the option to purchase between July 15 and August 15, 1964. [Rep.Tr. 406, line 11—407, line 1.]

The only conclusion to be drawn from this is that it was not in fact the intent of the parties that On Mark would receive sixty months' rent before the option could be exercised. It was known at the time the agreement was executed that On Mark was not likely under any circumstances to receive sixty months' rent.

In attempting to avoid the effect of Mr. Denny's testimony, appellees in their answering brief advance several explanations, none of which bears close examination.

First, appellees point out that Mr. Denny "did not state that it was impossible" to meet the October delivery date. [Appellees' Br. p. 41.] Appellants submit that what Mr. Denny did say is more to the point than what he did not say. He did say, in response to a question as to when it was estimated that the aircraft would be ready for delivery to Interpublic, that it "*normally*" takes approximately five months for completion of the necessary work. Only one interpretation can be given these words, and that is the one which appellants have urged,

viz., that when the parties signed the lease option agreement and On Mark commenced work on the aircraft in July 1959, On Mark knew that the date of delivery and the commencement of the lease term probably would not occur for approximately five months, i.e., mid-December 1959.

Secondly, appellees blame the delay in delivery of the aircraft on changes and additions to the specifications which were requested by Interpublic. In support of this contention, appellees refer on page 7 of their brief to Plaintiff's Exhibit 87, a letter to Mr. Denny of On Mark from a Mr. Alfred Chase, transmitting revised specifications for electronic equipment to be installed in the airplane. It is to be noted, however, that the date of Plaintiff's Exhibit 87 is July 14, 1959. The lease option agreement itself [Plaintiff's Exhibits 2 and 3] had only been executed four days before, on July 10, and it had been amended by a letter [Plaintiff's Exhibit 4] written on July 13, 1959, by the then Secretary of Interpublic and agreed to on July 15 by Mr. Denny.

Can appellees therefore seriously contend that the receipt of the revised specifications for certain equipment on or about July 15, 1959 really caused a two-months' change in the delivery date that had been contemplated at the time the lease was signed a few days earlier? There is no evidence that On Mark had commenced its conversion work by the date the revised specifications were sent to it and no indication that the revised specifications had anything to do with causing the delay in delivery. Indeed, the record shows that Harder and Denny had previously discussed this electronic equip-

ment which Interpublic wanted included in the aircraft, and On Mark had been informed of it prior to the execution of the lease option agreement. [Rep.Tr. 913-918.] There is no support whatsoever in the evidence for the appellees' statement nor the court's finding that the contemplated delivery date for the plane was changed by reason of the changed electronic equipment requested by Interpublic.

A similar answer applies to appellees' third contention, set forth on page 42 of their brief, that even after the changes to the specifications the parties again expressed their intention to meet an October delivery date. Plaintiff's Exhibit 4 is cited in support of this assertion. It is to be noted that Exhibit 4, the letter to Mr. Denny from Interpublic's secretary, is dated July 13, 1959, thus being practically contemporaneous with the execution of the lease option agreement which it amends. Further, Mr. Denny was cross-examined concerning the circumstances behind this letter. He testified that it was written by Mr. Holme after he had telephoned Holme to discuss certain provisions of the lease and had expressed a desire for relaxation of the requirement that the aircraft be ready for delivery no later than October 14, 1959. [Rep. Tr. 404, line 19 — 405, line 5.] This letter, therefore, did not really express the parties' intention to meet an October delivery date. Rather, it was written because Mr. Denny was aware at the time that the October date would not be met and wanted written assurance that On Mark would not be in default on that account. [Rep. Tr. 405, lines 6-9.]

On pages 21 to 25 of appellants' opening brief, all of the relevant testimony bearing upon the meaning of the lease option agreement with respect to the time of exercise of the option was briefly reviewed. Appellees do not discuss any other testimony in that portion of their brief dealing with this point (pp. 37-43). As noted hereinabove, they only make an argument based upon what Mr. Denny did not say, rather than what he did say, and they call attention to two exhibits which do not support their interpretation.

In their opening brief (p. 30) appellants have also pointed out that it would work no injustice if On Mark were to sell a damaged and repaired aircraft for the option price without having received a full sixty months' rent. The value of the aircraft would be diminished, even though repaired, and Interpublic would have incurred the expense of hiring another aircraft while the repairs were being made.

Appellees answer this by saying that there would be "no necessary diminution" in the value of the plane, and that Interpublic paid less rent than it had paid to On Mark for the aircraft which it leased from a third party during the period of repairs [Appellees' Br. p. 43.]

Whether or not there would be a "necessary diminution" in the value of the plane, this Court knows what everyone knows, to wit, that however repaired, a substantially damaged aircraft would sell for less.

How much "less rent" appellants paid is shown by reference to Plaintiff's Exhibit 22, the lease agreement under which Interpublic leased a less desirable Martin

404 aircraft [Rep.Tr. pp. 827-828 and pp. 871-873] to fulfill its transportation requirements after the On Mark plane had been damaged. The rental called for is $7,500 a month, plus $36 per hour of flight time. At that hourly rate, the rental for the Martin 404 would exceed the rental for the On Mark plane before seven hours flying time per month had elapsed. Since Interpublic would obviously not lease an airplane at this monthly rental for only a few hours of use, it is apparent that the true rental of the substitute was substantially in excess of the $7,747 a month to be paid to On Mark under the lease option agreement.

Obviously, from appellants' point of view, it is irrelevant to whom the rental was paid. Interpublic's program for the "acquisition" of the aircraft contemplated payment of the very substantial rental until the option date with the benefit of the use of the aircraft until such time and then a purchase at the option price. Title and risk of loss of the aircraft was in appellee On Mark [Plaintiff's Exhibit 2, par. 9-10.] Appellees would effectively place a significant aspect of such risk of loss upon appellants by adding the time required to effect repairs to the fixed date for the exercise of the option. To acquire the airplane appellants would thus be obliged to pay not only the full number of rental payments to which On Mark would be entitled in the event no such loss of use occurred, but as well, the rental for a substitute aircraft during the repair period. The total cost of the "acquisition" would thereby be increased by the full amount of the rental for the substitute aircraft. Such a result would have been highly burdensome and unfair to appellants.

It is therefore entirely reasonable to hold appellees to the clear wording of the option provision.

III. THOUGH INTERPUBLIC'S DEFAULT UNDER THE LEASE EXCUSED ON MARK FROM PERFORMING UNDER THE OPTION, APPELLANTS ARE ENTITLED TO LIMIT DAMAGES FOR RENTAL PAYMENTS TO PERIOD BEFORE OPTION DATE AND TO OFFSET VALUE OF OPTION AGAINST RENTAL PAYMENTS.

Appellees have misconstrued the thrust of appellants' argument in Parts III and IV of the opening brief, wherein it is contended that the trial court erroneously permitted recovery of rent and maintenance costs for a period beyond the option date and erroneously refused to allow the value of the option as an offset against On Mark's recovery of rental payments.

Appellants have not challenged the trial court's findings that Interpublic was in default under the provisions of the lease and that On Mark did not have to deliver the airplane to Interpublic in July 1964. They do, however, challenge the court's conclusion that the effect of this default can be to give On Mark greater rights than it would have had if no default occurred. The agreement which was negotiated with On Mark expressly gave Interpublic the right to terminate the lease by exercise of the option between certain dates, July 15 and August 15, 1964. Termination of the lease would have the effect of terminating the obligation to continue rental payments and would give Interpublic an airplane worth $125,000

for $32,950. Thus, if no default had occurred, On Mark would have received no more than the amount of the rental to the option date and would have been obliged to honor the option which was worth $92,050 to Interpublic. Judgment for the rent is equivalent to receipt of the rent. If Interpublic is by judgment required to pay the rent to the option date, it is entitled to invoke the rights it would have by paying the rent to such date.

The authorities cited by appellants squarely so hold. *Chevrolet Motor Co. v. McCullough Motor Co.,* 6 F.2d 212 (9th Cir., 1925), and the other authorities cited at pp. 33-35 of appellants' opening brief, clearly hold that plaintiff is to be given by judgment only the equivalent of the benefits he was entitled to up to the time the contract was terminable, assuming full performance. In each case defendant was in default of such performance. Likewise, the authorities cited in appellants' opening brief, pp. 37-42, clearly hold that where defendant's breach excuses plaintiff from the performance of an obligation he would otherwise be called upon to perform, defendant is entitled to a credit. For example, in the quotation from McCormick at p. 39, the essence of the rule as stated is that the plaintiff "must give credit, in striking the balance, for whatever he has been saved by being excused from performing."

Appellees have not disputed the principle of law enunciated by these authorities. Indeed, they do not even discuss it. They merely repeat the argument made in Part II of their brief, i.e., that Interpublic was not entitled to exercise the option because it was in default of its obligations under the lease and, therefore, On Mark

did not have to deliver the aircraft on the agreed date for the option price of $32,950. This, of course, is no answer to an argument based upon a principle of law which assumes that by reason of defendant's default plaintiffs were excused from performing pursuant to the option.

IV. THE DOCTRINE OF PROMISSORY ESTOPPEL MAY NOT BE INVOKED TO SHOW THAT THE SECURITY BANK ACQUIRED RIGHTS IN EXCESS OF THOSE OF ON MARK, ITS ASSIGNOR.

Appellees argue in Part VI of their brief that there was a valid consideration to support an independent obligation owed to the Security First National Bank that Interpublic would not terminate the lease. They contend that since the bank released a third party from his personal guarantee of the On Mark loan after Interpublic had executed the "Receipt and Consent to Assignment" (Plaintiff's Exhibit 9), the doctrine of promissory estoppel may be invoked.

Plaintiff's Exhibit 9 shows on its face, however, that before affixing their signatures thereto, Interpublic's officers deliberately crossed out the language stating that the consent was given to induce the bank to make the loan to On Mark and in consideration of the making of the loan. At the trial, counsel for the bank stated that it did not appear from the evidence that appellants were ever informed of the release of the third party guarantor. [Rep.Tr. 1752, line 20-1753, line 8.]

An essential element of promissory estoppel is certainly that of reasonable expectation by the promisor that his promise will induce action on the part of the promisee. *Section 90, Restatement of Contracts.* Where the promisor goes out of his way to strike the language of inducement from the instrument in question, the corporate officers even placing their initials in the margin of the page to call attention to the change, then it appears highly unreasonable for the promisee to proceed as though there had been no change, not inform the promisor of such action, and then claim that the action was "induced" and that a promissory estoppel exists. If the doctrine of promissory estoppel can be invoked in such circumstances, a promisor is unfairly exposed to liability for almost any type of claim.

The case of *Greene v. Wilson,* 208 Cal.App.2d 852 (1962), cited on page 53 of appellees' brief, is not a case where the promisor had no knowledge of the reliance which his promise induced. It appears from the court's review of the testimony, as set forth on page 859 of the opinion, that the nature of the promisee's reliance was expressly made known to the promisor.

Aside from that point, however, appellants know of no case where a promissory estoppel has been found to exist where the promisor particularly made known to the promisee that his consent was not intended to induce the latter to take any action at all.

CONCLUSION

The trial court's award of damages to appellees was based upon an erroneous premise that the option to purchase the aircraft was not exercisable at the time specified by the express terms of the agreement. In their answering brief, appellees have not justified the court's departure from those terms. Nor have they answered appellants' argument that Interpublic's default should not have the effect of conferring upon On Mark the right to damages greater than the benefits that would have been received had the agreement been fully performed.

It is again respectfully submitted that the lower court's judgment should be modified by reducing appellees' damages to the amount they would have received had the lease option agreement, properly construed, been fully performed on both sides.

O'Melveny & Myers

Rodney K. Potter

Richard B. Ragland

Attorneys for Appellants

The Interpublic Group of Companies, Inc.,

McCann-Erickson, Inc., and Interpublic Inc.

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

RODNEY K. POTTER

United States Court of Appeals

NINTH CIRCUIT

NO. 20649

RAMON NOVARRO,

Appellant,

vs.

PETER PITCHESS, Sheriff of the County of Los Angeles, State of California, et al.,

Appellees.

APPEAL FROM DENIAL OF PETITION FOR WRIT OF HABEAS CORPUS BY THE UNITED STATES DISTRICT COURT, SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION

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TOPICAL INDEX

TABLE OF AUTHORITIES CITED

NO. 20649

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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Appellees.

APPEAL FROM DENIAL OF PETITION FOR WRIT OF HABEAS CORPUS BY THE UNITED STATES DISTRICT COURT, SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION

TO: THE HONORABLE RICHARD H. CHAMBERS, CHIEF JUDGE OF THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT, AND TO THE HONORABLE CIRCUIT JUDGES:

Petition for Writ of *Habeas Corpus* in the above-entitled cause was entered in the docket on Nov. 16, 1965."

INTRODUCTORY STATEMENT

In researching the law for this appeal, it was discovered that appellant, Ramon Novarro, had not exhausted all of his remedies below. Appellant Novarro had the right to move the United States District Court for the Southern District of California, Central Division, for an Order allowing him to amend his petition for a writ of *habeas corpus*. If not for the fact that jurisdiction is presently vested in this Honorable Court, the United States District Court for the Southern District of California, Central Division, would be empowered to grant said motion. In researching further, appellant discovered that, not only did the United States District Court have the power to grant an amendment of his petition, but, it was obligated, under the pleadings, as they stood, to grant, at the very least, a hearing on an order to show cause why a writ of *habeas corpus* should not issue. The rationale on the latter view is as follows:

The United States Code, Title 28, Section 2251 states

that a restraining order *MAY* (emphasis ours) be granted pending determination of an application for writ of *habeas corpus*. Clearly, this is not a mandatory provision, the word "*may*" creating a permissible climate for granting a restraining order. On August 20, 1965, the Honorable Jesse W. Curtis, Judge of the United States District Court for the Southern District of California, Central Division, signed and issued a restraining order prohibiting officials of the State of California from taking further proceedings against the liberty of petitioner and appellant herein. This Order is noted on page 11 of the Transcript of Record on Appeal to this Honorable Court. The first paragraph of the aforementioned Order reads as follows:

> "GOOD CAUSE APPEARING upon reading the Petition of Ramon Novarro for Writ of *Habeas Corpus* or, in the alternative, for an order staying and restraining the execution of sentence, or for bail, and points and authorities attached thereto, on file herein . . . "

The Honorable Jesse W. Curtis then signed the Order.

The United States Code, Title 28, Section 2243, reads, in part, as follows:

> "A court, justice or judge entertaining an application for a writ of *habeas corpus SHALL* (emphasis ours) forthwith award a writ or issue an order directing the respondent to show cause why the writ

> should not be granted, unless it appears from the application that the applicant or person detained is not entitled thereto."

The aforementioned Section 2243 contains the word "*shall.*" Clearly, this is a mandatory provision.

This cause was transferred from the Honorable Jesse W. Curtis, Judge of the United States District Court for the Southern District of California, Central Division, to the Honorable Leon R. Yankwich, Judge of the United States District Court for the Southern District of California, Central Division. Judge Yankwich neither awarded the writ nor did he issue an Order directing respondent to show cause why the writ should not be issued, nor did he allow petitioner and appellant herein to amend his application for writ of *habeas corpus*.

Since Judge Curtis stated that there *was* good cause showing to issue a restraining order under the United States Code, Title 28, Section 2251, a non-mandatory provision, the procedure for determination of the merit of the petition for *habeas corpus* came under the mandatory provisions of the United States Code, Title 28, Section 2243, i.e., either issue a writ or order a hearing on the merits. This was not done.

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In summation, the only basis for the court's order denying the petition for writ of *habeas corpus* without a hearing is that the application therefor shows on its face that the applicant is not entitled thereto.

United States Code, Title 28,
Section 2243.

Counsel for appellant, upon discovering the aforementioned cases, and bearing in mind the United States Code, Title 28, Rules of Civil Procedure, Rule 15(a) (to wit, that amendments to pleadings should be liberally construed), approached the Honorable Leon R. Yankwich with his findings. Judge Yankwich, upon hearing counsel for appellant herein, stated that if jurisdiction were to be revested in the United States District Court for the Southern District of California, Central Division, he would, upon motion being made, order the proceedings reopened in order to allow appellant herein to amend his petition for writ of *habeas corpus* and would either issue the writ or order a hearing as to why a writ of *habeas corpus* should not be issued, providing the amended petition showed constitutional grounds.

Counsel for respondent, Robert C. Lynch, a staff member of the Office of the County Counsel of the County of Los Angeles, was notified of this turn of events and

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agreed to sign a stipulation to dismiss the appeal pending before this Honorable Court, without prejudice, if - and only if - the Office of the City Attorney of the City of Los Angeles concurred.

The Office of the City Attorney of the City of Los Angeles refused and still refuses to sign said stipulation.

Inasmuch as the only manner of dismissing an appeal before this Honorable Court, without prejudice, is Rule 14 of the Rules of the United States Court of Appeals for the Ninth Circuit (to wit, both parties, appellant and respondent must so stipulate), and inasmuch as respondent's counsel fails and refuses to stipulate, respondent compels this Honorable Body to determine a constitutional question which is premature, and which, depending upon the determination of the United States District Court for the Southern District of California, Central Division, upon a hearing on an amended petition for a writ of *habeas corpus*, might be totally unnecessary. It is appellant's position that the Honorable United States District Court for the Southern District of California, Central Division, must, as a matter of law, grant a hearing on the petition as submitted without amendment. Nevertheless, appellant does not wish to impose upon that Honorable Body and would

gladly amend his petition for a writ of *habeas corpus* in conformance with the request of the Honorable Leon R. Yankwich, in order to get a final hearing on the merits.

Appellant, therefore, respectfully requests this Honorable Court to dismiss this appeal, without prejudice, or, in the alternative, either to (1) order the United States District Court to hear and determine the merits of the petition for writ of *habeas corpus*, or (2) order said District Court to allow appellant herein to amend his petition for a writ of *habeas corpus*.

CONSTITUTIONAL PROVISIONS

There exists in the decision of the United States District Court a failure to follow mandatory provisions of federal procedure. Further, the Fourteenth Amendment to the Constitution of the United States guarantees to appellant equal protection of the law and his right not to be deprived of his liberty without due process of law.

FEDERAL STATUTES INVOLVED

Title 28, U. S. Code, Section 2243, reads, in part as follows:

> "A court, justice or judge entertaining an application for a writ of *habeas corpus* shall forthwith award a writ or issue an order directing the respondent to show cause why the writ should not be granted, unless it appears from the application that the applicant or person detained is not entitled thereto."

Title 28, U. S. Code, Section 2251, reads, in part, as follows:

> "A justice or judge of the United States before whom a *habeas corpus* proceeding is pending, may, before final judgment or after final judgment of discharge, or pending appeal, stay any proceeding against the person detained in any State court or by or under the authority of any State for any matter involved in the *habeas corpus* proceeding."

STATE OF CALIFORNIA STATUTES INVOLVED

Applicable paragraphs of the Vehicle Code of the State of California read as follows:

Section 40300: Application of chapter.

> "The provisions of this chapter shall govern all peace officers in making

arrests for violations of this code without a warrant for offenses committed in their presence, but the procedure prescribed herein shall not otherwise be exclusive of any other method prescribed by law for the arrest and prosecution of a person for an offense of like grade."

Section 40301: Procedure.

"Except as provided in this chapter, whenever a person is arrested for any violation of this code declared to be a felony, he shall be dealt with in like manner as upon arrest for the commission of any other felony."

Section 40302: Mandatory appearance.

"Whenever any person is arrested for any violation of this code, not declared to be a felony, the arrested person shall be taken without unnecessary delay before a magistrate within the county in which the offense charged is alleged to have been committed and who has jurisdiction of the offense and is nearest or most accessible with reference to the place where the arrest is made in any of the following cases:

"(a) When the person arrested fails to exhibit his driver's license or other satisfactory evidence of his identity.

"(b) When the person arrested refuses to give his written promise to appear in court.

"(c) When the person arrested demands an immediate appearance before a magistrate.

"(d) When the person arrested is charged with violating Section 20001, 23102, 23105 or 23106."

Section 40306: Misdemeanor procedure before magistrate.

"(a) Whenever a person is arrested for a misdemeanor and is taken before a magistrate, the *arresting officer shall file with the magistrate a complaint stating the offense with which the person is charged.* (Emphasis ours.)

"(b) The person taken before a magistrate shall be entitled to at least five days continuance of his case in which to plead and prepare for trial and the person shall not be required to plead or be tried within the five days unless he waives such time.

"(c) The person taken before a magistrate shall thereupon be released from custody upon his own recognizance or upon such bail as the magistrate may fix."

Section 40307: Magistrate unavailable.

"(a) When an arresting officer attempts to take a person arrested for a misdemeanor violation of this code before a magistrate and the magistrate or person authorized to act for him is not available, the arresting officer shall take the person arrested before the clerk of the magistrate or the officer in charge of the most accessible county jail, city jail, or other place of detention within the county, who shall admit him to bail in accordance with a schedule, fixed as provided in Section 1269(b) of the Penal Code."

Section 15: "Shall" and "may."

"'Shall' is mandatory and 'may' is permissive."

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Section 23102: Misdemeanor drunk driving.

"(a) It is unlawful for any person who is under the influence of intoxicating liquor, or under the combined influence of intoxicating liquor and any drug, to drive a vehicle upon any highway. Any person convicted under this section shall be punished upon a first conviction by imprisonment in the county jail for not less than thirty days nor more than six months or by fine of not less than two hundred fifty dollars ($250) nor more than five hundred dollars ($500) or by both such fine and imprisonment and upon a second or any subsequent conviction by imprisonment in the county jail for not less than five days nor more than one year and by a fine of not less than two hundred fifty dollars ($250) nor more than one thousand dollars ($1,000). A conviction under this section shall be deemed a second conviction if the person has previously been convicted of a violation of Section 23101 of this code.

"(b) Any person convicted of a second or subsequent offense under this section shall not be granted probation by the court, nor shall the court suspend the execution of the sentence imposed upon such person."

Section 23101: Felony drunk driving.

"Any person who, while under the influence of intoxicating liquor, drives a vehicle and when so driving does any act forbidden by law or neglects any duty imposed by law in the driving of such vehicle, which act or neglect proximately causes bodily injury to any person other than himself is guilty of a felony and upon conviction thereof shall be punished by imprisonment in the state prison for not less than one year nor more than five years or in the county jail for not less than ninety days

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same from the application for the writ?

2) The statute under which petitioner was convicted clearly and unequivocally states that *only an arresting officer may swear out a complaint against an accused* (our emphasis). In the present case, the arresting officer did not swear out a complaint against your appellant. Does failure to conform to the particular type of statute in question, by State authorities, constitute a violation of due process and equal protection as provided by the Fourteenth Amendment to the United States Constitution?

3) When a State provides procedural safeguards to an accused and then disregards those safeguards in bringing a person to trial, does this - in and of itself - constitute a violation of the equal-protection and due-process clauses of the Fourteenth Amendment to the United States Constitution?

4) When officials of a State, in bringing a criminal proceeding against a defendant, break the laws of said State which provides procedural safeguards for the protection of said defendant, does this - in and of itself - constitute a violation of due process and equal protection as provided by the Fourteenth Amendment to the United States Constitution.

5) May evidence be used against a defendant at his

trial which consists, in part, of alleged statements made by him and transcribed into a police report, when said statements were elicited without advising said defendant of his right to counsel or his right to remain silent?

STATEMENT OF THE FACTS

On February 20, 1962, appellant Novarro was arrested by police officers R. E. Hattey and E. J. Jewell, taken to the police station in the County of Los Angeles, State of California, and charged with violation of Vehicle Code Section 23102. A verified complaint, filed upon information and belief, was later filed by one J. W. Fletcher, who was not one of the arresting officers nor a witness to the arrest. A motion to dismiss the complaint on the ground of lack of jurisdiction, because the complaint was filed on information and belief and *not* by one of the arresting officers, was made before trial on March 21, 1962, and was denied on March 26, 1962, in Division 70 of the Municipal Court of Los Angeles Judicial District in a minute order holding that the said court had jurisdiction of the cause and ordering the trial of the defendant, appellant herein, to proceed. On March 26, 1962, the said court found appellant guilty of a violation of said Vehicle Code Section 23102(a)

and continued the matter for sentencing and did sentence appellant, on June 26, 1962, to fifteen days in the county jail of the County of Los Angeles, State of California, plus a fine of $250. At the trial, appellant stood on his motion to dismiss for lack of jurisdiction, and the case was submitted to the Municipal Court on the arrest report.

Appellant filed a petition for a writ of prohibition in the Superior Court of the State of California, for the County of Los Angeles, No. 794977, and an amended petition for writ of prohibition with the said Superior Court, which was denied without hearing on June 15, 1962.

Appellant filed a petition for writ of prohibition with the District Court of Appeal of the State of California, Second Appellate District, 2nd Civil No. 26535, which petition was denied by the said court on June 25, 1962, without opinion.

Appellant petitioned for a hearing before the Supreme Court of the State of California from a denial of the writ of prohibition by the District Court of Appeal. Said petition for hearing was denied by the Supreme Court of the State of California, on July 25, 1962, without opinion.

An appeal from the decision of the Municipal Court

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of the Los Angeles Judicial District was not filed on behalf of appellant Novarro until notice by the California Supreme Court of its denial, on July 26, 1962; said appeal was dismissed by the Appellate Department of the Superior Court of the State of California, for the County of Los Angeles, on its own motion on August 9, 1962, on the ground that it lacked jurisdiction, since no appeal was filed within ten days after sentence had been pronounced on June 26, 1962, as required by statute (while the matter was before the Supreme Court of the State of California on the writ of prohibition).

Appellant then filed for a writ of *habeas corpus* with the Superior Court of the State of California, for the County of Los Angeles, which was denied by said court on August 23, 1962.

Appellant then petitioned for a writ of *habeas corpus* to the District Court of Appeal, Second Appellate District, for the State of California, which petition was denied on September 13, 1962.

Appellant then petitioned the Supreme Court of the State of California for writ of *habeas corpus*, which was denied by said Supreme Court on October 10, 1962.

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On October 4, 1962, appellant filed a petition for writ of *habeas corpus* with the United States District Court for the Southern District of California, Central Division, and his petition was denied on the ground that his State remedies had not been exhausted, i.e., that a petition for a writ of *certiorari*, to review the decision of the Supreme Court of the State of California denying the writ of *habeas corpus*, had not been filed with or acted upon by the Supreme Court of the United States.

A stay of execution of the sentence of the Municipal Court of the Los Angeles Judicial District, County of Los Angeles, State of California, was granted by the said Municipal Court until October 4, 1962. A further stay of execution was granted by the United States District Court for the Southern District of California, Central Division, until such time as petitioner could petition the Supreme Court of the State of California for a stay of execution pending the filing of a petition with the Supreme Court of the United States for writ of *certiorari*, and for further stay, but no later than November 26, 1962. The petition for stay of execution was denied by the Supreme Court of the State of California on or about November 10, 1962, and the petition for a stay of execution

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filed before this Honorable Court was denied by the Honorable Mr. Justice Douglas on November 21, 1962. Thereafter, and on November 21, 1962, the United States District Court for the Southern District of California, Central Division, ordered a stay of execution of sentence, "pending the filing of petitioner's (appellant's) application for a writ of *certiorari* with the Supreme Court of the United States, and not later than January 3, 1963," and further ordered that such stay should continue "pending said filing and disposition of said writ of *certiorari*." Application for writ of *certiorari* was denied.

On August 20, 1965, in the United States District Court for the Southern District of California, Central Division, the Honorable Jesse W. Curtis signed a restraining order which prohibited local authorities from interfering in any manner with the liberty of appellant herein, pending his petition for writ of *habeas corpus* before said court. Said cause was transferred to the Honorable Leon R. Yankwich, Judge of the United States District Court for the Southern District of California, Central Division. Judge Yankwich denied appellant's petition for writ of *habeas corpus*, without hearing, on November 16, 1965.

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Thereafter, this appeal was filed with the United States Court of Appeals for the Ninth Circuit.

REASON FOR GRANTING WRIT OF *HABEAS CORPUS*

1) Appellant is entitled, under the due-process clause of the Fourteenth Amendment to the United States Constitution, to be tried by the established rules of procedure determined by the legislature.

> *People v. Horiuchi*,
> 114 Cal. App. 415;
>
> *People v. Gilbert*,
> 25 Cal. 2d 422.

As stated in *Garner v. Louisiana*, 7 L. Ed. 2d 207, at page 214:

> " . . . it is as much a denial of due process to send an accused to prison following conviction for a charge that was never made as it is to convict him upon a charge for which there is no evidence to support his conviction."

> "Constitutional safeguards for the protection of all who are charged with offenses are not to be disregarded in order to inflict merited punishment on some who are guilty."

> *Ex Parte Richard Quirin*,
> 63 S. Ct. 22, 87 L. Ed. 3.

> "The State is free to regulate the procedure of its courts in accordance with its own conceptions of policy, unless in so doing it 'offends some principle of justice so rooted in the tradition and conscience of our people as to be ranked as fundamental.' But 'the State may not permit an accused to be hurried to conviction. . . .' *Moore v. Dempsey*, 261 U.S. 86, 91, 67 L. Ed. 543."
>
> *Voight v. Webb*, 47 F. Supp. 743, 746.

Under our vaunted legal system, no man, however bad his behavior, may be convicted of a crime of which he was not charged, proven and found guilty in accordance with due process.

Parr v. United States, 363 U.S. 370.

If the complaint filed in this case against appellant was not filed by the arresting officer, as is a mandatory requirement under the statute, then no complaint was actually filed against him, and appellant was found guilty and convicted for a charge that was never properly made in the court. This is a denial of due process under the Fourteenth Amendment to the Constitution of the United States. It is settled that if the defendant has not been legally committed and if the trial court erroneously denies the motion to set aside and permits the action to proceed

it is otherwise provided by law in section 40306 of the California Vehicle Code. Furthermore, it would seem to be pertinent that said section 40306 is found in the Vehicle Code, which deals with misdemeanors and felonies in connection with vehicular activities, whereas section 740 of the Penal Code of the State of California is concerned generally with public offenses. Specific statutes take precedence over general statutes.

> "Since the plain meaning of a statute must be followed, courts are prohibited from speculating that the legislature meant something other than what it said."
>
> *Los Angeles County v. Read* (1951) 193 Cal. App. 748, 14 Cal. Rptr. 628.

> ". . . 'a general (statutory) provision is controlled by one that is special, the latter (special) being treated as an exception to the former (general). A specific provision relating to a particular subject will govern in respect to that subject, as against general provisions, although the latter (general provision), standing alone, would be broad enough to include the subject to which the more particular provision relates.' *Rose v. State*, 19 Cal. 2d 713, 723-724 . . . "
>
> *Los Angeles v. Pacific Elec. Ry. Co.* (1959) 168 Cal. App. 2d 224, 335 P. 2d

1042. (Parenthetical words supplied for clarity.)

See also:

Richarson v. San Diego (1951) 193 Cal. App. 2d 648, 14 Cal. Rptr. 494;

People v. Perez (1951) 198 ACA 489, 18 Cal. Rptr. 164.

LIBERAL OR STRICT CONSTRUCTION: The defendant in a criminal case is entitled to the benefit of every reasonable doubt as to the true interpretation of words or the construction of language in a statute.

People v. Holtzendorff (1960) 177 Cal. App. 2d 788, 2 Cal. Rptr. 676.

ERRONEOUS CONSTRUCTION: An erroneous administrative construction does not govern interpretation of a statute.

Wallace v. State Personnel Board (1959) 168 Cal. App. 2d 543, 336 P. 2d 223.

SPECIAL AND GENERAL STATUTE: A special statute dealing expressly with a particular subject controls and takes precedence over a general statute covering the same subject.

Simpson v. Cranston (1961) 56 Cal. 2d 63, 362 P. 2d 492.

NECESSITY FOR CONSTRUCTION - UNAMBIGUOUS STATUTE: If a statute is clear, courts should enforce the legislative intent as disclosed thereby.

Efron v. Kalmanovitz (1960)
185 Cal. App. 2d 149,
8 Cal. Rptr. 107.

2) It is elementary that public officials must themselves obey the law.

Wirin v. Parker, 48 Cal. 2d 890,
894.

When a statute is passed by the legislature of a State, setting out in particularity what shall happen when a vehicular misdemeanor occurs, and making it mandatory that what shall happen must happen with respect to a complaint stating an offense against the person being charged for the vehicular misdemeanor, and the State and its officers intentionally flaunt the plain wording of the statute, then the person so arrested is being denied the equal protection of the law and due process under the Fourteenth Amendment to the United States Constitution. The purpose of the equal-protection clause of the Fourteenth Amendment is to secure to every person within the States' jurisdiction, protection against intentional and arbitrary discrimination, whether occasioned by express

terms of a statute or by its improper execution through duly constituted agents.

Sunday Lake Iron Company v. Township of Wakefield, 247 U. S. 352.

An actual discrimination arising from the method of administering the law is a potential in creating a denial of equality of rights guaranteed by the law.

Rogers v. State of Alabama, 192 U. S. 226.

A State is not required by the United States Constitution to provide different sets of procedural criminal statutes for different types of crimes; but where different sets of criminal procedural statutes are provided by a State, it cannot deny the right to a person allegedly guilty under one statute providing one procedure by complaining against him under a different statute providing a different procedure.

Griffin v. Illinois, 351 U. S. 12, 100 L. Ed. 891.

A conviction under section 23101 of the Vehicle Code of the State of California is deemed a conviction *malum in se*. A conviction under a comparable statute in the State of Michigan was so deemed.

People v. Townsend, 214 Mich. 267.

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In the State of California, the courts have recognized that the requisite feloneous intent for conviction under section 23101 of the Vehicle Code is the equivalent of that necessary for a conviction under section 23102 of the Vehicle Code. See:

> *People v. Gossman*, 95 Cal. App. 2d 293,
>
> holding that a charge under former section 501 of the Vehicle Code will support a conviction under former section 502 of the Vehicle Code - those former sections being present sections 23101 and 23102, respectively, of the Vehicle Code.

The ordinary misdemeanor prosecution procedure is as set out in section 740 of the Penal Code of the State of California. But the misdemeanor with which appellant is charged under section 23102 of the Vehicle Code is not an ordinary misdemeanor. It is a misdemeanor for which, under section 40302 of the Vehicle Code of the State of California, subparagraph (d), the person arrested shall (must) be taken without unnecessary delay before a magistrate. Under section 40306 of the Vehicle Code, when the person is arrested and taken before the magistrate, he is entitled to have the *arresting officer* file with the magistrate a complaint stating the offense for which he is charged. Such rights are not required by the law for arrests of

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ordinary misdemeanors under section 740 of the Penal Code of the State of California. Nowhere else in the Vehicle Code is there a statute permitting the filing of the complaint by anyone other than the arresting officer.

The equal-protection clause of the Fourteenth Amendment to the Constitution of the United States applies to a criminal case.

Griffin v. Illinois, supra,
351 U. S. 12, 16 - 18.

J. W. Fletcher was not the officer who arrested appellant, either with or without a warrant. He was not a witness to the alleged misdemeanor. He had no personal knowledge of the facts set out in the complaint. He had no information or belief upon which to base his filing of the complaint against the appellant. His only knowledge with respect to appellant's alleged violation was what he gleaned from the arresting police report, which may or may not have been true. The fact that the complaint may have appeared to have been valid upon its face does not grant the court jurisdiction over the appellant.

United States v. Langsdale,
115 F. Supp. 489;

United States Ex. Rel. King.
v. Gokey, 32 F. 2d 793;

United States v. Baumart,
179 Fed. 735;

United States v. Wells,
225 Fed. 320;

United States v. Ruroede,
220 Fed. 210.

In *Wells v. Justice,* 181 Cal. App. 2d 221, at page 225, the California Appellate Court set forth the following:

> "'The preliminary complaint in criminal proceedings is merely an allegation in writing, signed by a person *who knows the facts*, . . . ' (*People v. Tibbitts,* 71 Cal. App. 709, 711, 712 . . .)" (Emphasis ours.)

When a complaint is stated upon information and belief, there is no presumption that the complaint is made on the personal knowledge of the officer complainant.

Giordenello v. United States,
357 U. S. 460, 486.

A trial court which accepts with approval the fruits of a long chain of constitutional and statutory infringements becomes the consummate force in the denial of due process. When the trial court permits itself, under the pressure of a sense of devotion to law enforcement by the State, to become the pinnacle of a pyramid of

indignities, offensive to the sense of justice, it loses jurisdiction and is without authority of law to pronounce a valid judgment and sentence.

Leyra v. Denno, 347 U. S. 556, 98 L. Ed. 948.

3) The arrest report in question herein was introduced into evidence as an exhibit of the People. On the face of that report it is quite apparent that appellant was not warned that statements made by him could be used against him, nor was he advised that he was entitled to the right of counsel.

In *Escobedo v. Illinois*, 378 U. S. 478, at page 490, the Court firmly established that where the police have determined that a person is a prime suspect in supposing he may have committed a crime, said suspect is entitled to an attorney, and questioning which is aimed at eliciting testimony against the suspect is to be prohibited and any statements excluded.

In *People v. Dorado*, 62 Cal. 2d 338, the court held that a defendant could not be charged with the waiver of the privilege against self-incrimination unless it appears that he was aware of its existence and

its surrounding safeguards and voluntarily and intelligently elected to refrain from asserting it. No such evidence exists here. The arrest report, as improper as it may be, clearly seems to indicate that a person in appellant's position as described in the police report, certainly would not be capable of understanding his rights against self-incrimination as provided by the Fourteenth Amendment to the Constitution of the United States.

FAILURE TO TAKE AN APPEAL FROM A STATE COURT CONVICTION DOES NOT CONSTITUTE A BAR TO A REMEDY BY *HABEAS CORPUS* IN A FEDERAL COURT

Appellant has pointed out that he filed an appeal (dismissed on motion of the court) with the Appellate Department of the Superior Court of the County of Los Angeles subsequent to the decision of the California State Supreme Court. The same question, the jurisdiction of the Municipal Court, was intended as a substantial ground for appeal; but under the California procedural rules, a decision of the highest court of the State on the question of jurisdiction could not have been had in any event, on an appeal, and an earlier filing of an appeal with the Superior Court would have withdrawn an

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opportunity for the California State Supreme Court to decide the question.

So long as the highest court of the State has had the facts before it, the determination of the appellant not to proceed by way of an appeal is not determinative of his right to a writ of *habeas corpus* from a federal court. This, in effect, is the holding in *Garton v. Tinsley*, 171 F. Supp. 387, at 389.

That case is in accord with the United States Supreme Court holding in *Brown v. Allen*, 344 U. S. 443, 97 L. Ed. 469, to the effect that, so long as the prisoner chooses at least one alternative method in which to bring the question before the highest court in the State, he will be deemed to have exhausted his State remedies within the meaning of Title 28, United States Code, section 2254. (Note, *en passant*, appellant has chosen the two methods available to bring the question before the California State Supreme Court; i.e., by writ of prohibition, by State writ of *habeas corpus*.) In *Brown v. Allen*, *supra*, Justice Frankfurter, in speaking for the Court, said (344 U. S. at 502):

> "Failure to exhaust an available state remedy is an obvious ground

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for denying the application. An attempt must have been made in the state court to present the claim now asserted in the district court, in compliance with section 2254 of the Judicial Code. Section 2254 does not, however, require repeated attempts to invoke the same remedy nor more than one attempt where there are alternative remedies. Further, *Darr v. Burford* requires 'ordinarily' an application for *certiorari* to the United States Supreme Court from the state's denial of relief. *cf. Frisbie v. Collins*, 342 US 519, 520-522, 96 L. Ed. 541, 544, 545; 72 S. Ct. 509."

STAGES OF THE PROCEEDINGS IN THE STATE COURTS AT WHICH, AND THE MANNER IN WHICH, THE FEDERAL QUESTIONS SOUGHT TO BE REVIEWED WERE RAISED

The federal questions of due process and equal protection under the Fourteenth Amendment to the Constitution of the United States were raised by argument of counsel for appellant on motion to dismiss on March 21, 1962 and March 26, 1962 in the Municipal Court of the Los Angeles District; and appellant's counsel's argument and brief before the District Court of Appeal, Second Appellate District, State of California, upon petition for writ of prohibition before said court, in paragraph XI thereof, which is quoted as follows:

"That said respondent should be restrained from proceeding with said sentencing for the reason that the complaint herein is void and ineffectual to confer jurisdiction upon respondent court to try your petitioner for the offense charged therein on the following grounds:

"The constitutional guarantee of due process afforded the petitioner by the United States Constitution and the 14th Amendment has been violated by said respondent, Municipal Court, in the following respects:

"1. Section 40302 of the Vehicle Code provides that a person charged with violation of Section 23102(a) shall be taken before a magistrate within the county in which the offense charged is alleged to have been committed and who has jurisdiction of the offense and is nearest and most accessible with respect to the place where the arrest is made.

"2. Section 40306 of the Vehicle Code provides that in the event a person is arrested for a misdemeanor and is taken before a magistrate, the *arresting officer shall file* with the magistrate a complaint stating the offense with which the person is charged (emphasis added).

"3. Section 15 of the Vehicle Code provides that the word 'shall' is mandatory and the word 'may' is permissive.

"4. Where a statute restricts the making of a complaint to certain persons, it may be made by such person only.

"The unconditional guarantee of equal protection of the law afforded the petitioner by the United States Constitution and the 14th Amendment has been violated by said respondent court."

Appellant also raised the federal questions in his petitions for writs of prohibition and writs of *habeas corpus* before all of the other courts of the State of California in which said petitions have been filed by counsel for appellant.

The federal questions presented in this appeal were raised before the United States District Court for the Southern District of California, Central Division, in appellant's petition for a writ of *habeas corpus* which was filed August 20, 1965, and which was denied; but since that Honorable Body refused to grant a hearing on an order to show cause why the writ should not be issued, no evidence to support appellant's position before the United States District Court is available.

CONCLUSION

WHEREFORE, appellant prays this Honorable Court set aside the decision of the United States District Court for the Southern District of California, Central Division, and make the following order:

1) Dismiss this appeal, without prejudice, and transfer this cause back to the United States

District Court for the Southern District of California, Central Division, and order the trial judge to allow appellant herein to amend his petition for writ of *habeas corpus*, and

2) Instruct the United States District Court for the Southern District of California, Central Division, either to issue a writ of *habeas corpus* or to issue an order directing respondent to show cause why the writ should not be issued, and

3) Have a hearing thereon, or

4) Issue writ of *habeas corpus*.

Respectfully submitted,

JOHN N. FROLICH

Attorney for Appellant.

C E R T I F I C A T E

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that in my opinion the foregoing brief is in full compliance with those rules.

DATED: June 5 , 1966, at Los Angeles, California.

Signature of Counsel

"EXHIBIT I"

"EXHIBIT I"

ORDER OF THE
UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

OFFICE OF THE CLERK
Room 231, U.S. Post Office and Courthouse
Los Angeles, California 90012

John N. Frolich, Esq.
411 W. 7th St.
Los Angeles, Calif. 90014

Evelle J. Younger
District Attorney Los Angeles
600 Hall of Justice
Los Angeles, Calif. 90012

65-1261 Y

Ramon Novarro vs. Peter J. Pitchess, etc.

You are hereby notified that Order Denying Petition for Writ of *Habeas Corpus* in the above-entitled case was entered in the docket on

Nov. 16, 1965.

I hereby certify that this notice was mailed on Nov. 16, 1965.

(copy enclosed)

CLERK, U. S. DISTRICT COURT

By E. Guerrero
E. Guerrero, Deputy Clerk

"EXHIBIT I"

PROOF OF SERVICE BY MAIL

STATE OF CALIFORNIA)
) ss.
County of Los Angeles)

I, the undersigned, say: I am and was at all times herein mentioned, a citizen of the United States and employed in the County of Los Angeles, over the age of eighteen years and not a party to the within action or proceeding; that

My business address is 215 West Fifth Street, Los Angeles, California 90013, that on June 5th, 1966, I served the within APPEAL FROM DENIAL OF PETITION FOR WRIT OF HABEAS CORPUS BY THE UNITED STATES DISTRICT COURT, SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION (No. 20649) on the following named parties by depositing a copy thereof, inclosed in a sealed envelope with postage thereon fully prepaid, in the United States Post Office in the City of Los Angeles, California, addressed to said parties at the addresses as follows:

Roger Arnebergh
City Attorney
City of Los Angeles
1902 City Hall
Los Angeles, Calif.

Harold W. Kennedy
County Counsel
County of Los Angeles
648 Hall of Administration
Los Angeles, California

I declare under penalty of perjury that the foregoing is true and correct.

Executed on June 5th, 1966, at Los Angeles, California.

D. A. Standefer
D. A. Standefer

Orig. & 20 copies:
Clerk, U. S. Court of Appeals
For the Ninth Circuit
U. S. Post Office and Court House Bldg.
San Francisco, California 94101 VIA AIR EXPRESS

Subscribed and sworn to before me
this day of June, 1966.

____
Notary Public in and for
the State of California.

No. 20649

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

RAMON NOVARRO,

Appellant,

vs.

PETER PITCHESS, Sheriff of the ~~City~~ County of Los Angeles,

Appellee.

THE PEOPLE OF THE STATE OF CALIFORNIA,

Real Party in Interest.

On Appeal From the United States District Court, Southern District of California, Central Division.

BRIEF OF REAL PARTY IN INTEREST.

ROGER ARNEBERGH,
City Attorney,
PHILIP E. GREY,
Assistant City Attorney,
ALLEN URI SCHWARTZ,
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Parker & Son, Inc., Law Printers, Los Angeles. Phone MA. 6-9171.

TOPICAL INDEX

order sets forth the reasons for such denial. Appellant filed a Notice of Appeal with the court from the order denying his petition for a writ of habeas corpus and received permission to prosecute his appeal. The District Court issued a certificate of probable cause. [See Transcript of Record on Appeal.]

Opening Statement.

The Real Party in Interest, herein, Roger Arnebergh, the City Attorney for the City of Los Angeles, representing the People of the State of California, respectfully requests that this Honorable Court affirm the order of the district judge, entered on November 16, 1965, which denied the appellant his petition for a writ of habeas corpus.

Statement of Facts.

The Real Party in Interest hereby incorporate by reference the facts as recited in Appellant's Brief, Statement of Facts, pages 16 through 21, as if fully set out herein.

Issue Presented on Appeal.

Will a Federal Writ of Habeas Corpus Issue in Cases Where the Petitioner is Not in Custody and Not Restrained of His Liberty?

ARGUMENT.

Will a Federal Writ of Habeas Corpus Issue in Cases Where the Petitioner Is Not in Custody and Not Restrained of His Liberty?

The Real Party in Interest, herein, has no quarrel with the proposition that a state prisoner may petition the federal courts for a writ of habeas corpus ". . . unless it appears from the application that the applicant or person detained is not entitled thereto." (28 U.S.C.A., §2243.)

The Transcript of the Record on Appeal shows that the appellant is not in custody now and that he was not in custody on August 20, 1965, the date the Petition for a Writ of Habeas Corpus was filed in the United States District Court. It should also be noted that the petition does not allege that the appellant was in the custody of the Sheriff of Los Angeles County, appellee herein, when the petition was filed.

Thus it is obvious that appellant is not, nor was he on August 20, 1965, in the custody of the appellee, and that he is now on $250.00 bail.

Title 28, U.S. Code, Section 2241, reads in part, as follows:

> ". . . (c) The writ of *habcas corpus shall not extend to a prisoner unless—*
>
> (1) . . . .
>
> (2) *He is in custody* for an act done or omitted in pursuance of . . . an order, process, judgment or decree of a court or judge of the United States; . . ." (Emphasis added.)

Title 28, U.S. Code, Section 2254, reads in part, as follows:

> "*An application for a writ of habeas corpus in behalf of a person in custody* pursuant to the judgment of a state court. . . ." (Emphasis added.)

Title 28, U.S. Code, Section 2255, includes the following phrases:

> "A prisoner in custody under sentence of a court . . . claiming the right to be released . . ." and "An application for a writ of habeas corpus in behalf of a prisoner. . . ."

The above sections, governing the issuance of a writ of habeas corpus in the federal courts, require that the petitioner be a prisoner in custody. This was not the case at the time the appellant, herein, filed his petition for a writ of habeas corpus in the United States District Court, nor does his petition allege that he was in the custody of the appellee, herein, at that time.

> "A petition for writ of habeas corpus should state that the petitioner is imprisoned or otherwise restrained of his liberty, and should show on its face that the prisoner is entitled to his discharge. It should show in whose custody the petitioner is detained; the place of imprisonment. . . ." 25 Am. Jur., Habeas Corpus §125, page 236.

It is the well established rule in federal courts that a writ of habeas corpus will not issue unless the applicant is in custody at that time, otherwise, the federal courts have no jurisdiction to issue such writ or even hear any argument thereon.

This is the rule followed by the United States Supreme Court, as illustrated by the language in the following cases:

> "Its purpose is to enable the court to inquire, first, if the prisoner is restrained of his liberty. If he is not the court can do nothing but discharge the writ.
>
> *Wales v. Whitney,* 114 U.S. 564, 571.

> "Something more than moral restraint is necessary to make a case for habeas corpus."
>
> *Wales v. Whitney, supra,* pages 571-572.

> "When a prisoner is in jail he may be released upon habeas corpus when held in violation of his consitutional rights."
>
> *Roger v. Peck,* 199 U.S. 425, 433.

> ". . . in order to entitle the present appellant to the relief sought, *it must appear that he is held in custody* in violation of the Constitution of the United States." (Emphasis added.)
>
> *Frank v. Mangum,* 237 U.S. 309, 326.

In *McNally v. Hill,* 293 U.S. 131, the court stated the following:

> ". . . the writ of *habeas corpus ad subjiciendum,* . . . [is one] by which the legality of the detention of one in the custody of another could be tested judicially." (page 136.)
>
> "The purpose of the proceeding . . . was to inquire into the legality of the detention, and the only judicial relief authorized was the discharge of the prisoner or his admission to bail. . . ." (page 136.)
> "*Without restraint of liberty, the writ will not issue.*" (Emphasis added.) (page 138.)

> "A sentence which a prisoner has not begun to serve cannot be the cause of restraint which the statute makes the subject of inquiry." (page 138.) "Wherever the issue has been presented, this Court has consistently refused to review, upon *habeas corpus*, the questions which do not concern the lawfulness of the detention." (page 139.)

In *United States v. Hayman*, 342 U.S. 205, the court traced the history and the use of the writ of habeas corpus and held that such writ is only available to a person in custody.

In *Heflin v. United States*, 358 U.S. 415, Mr. Justice Douglas, writing the majority opinion, stated as follows:

> "A majority . . . are of the view . . . that §2255 [28 U.S.C.A.] is available to attack a sentence under which a prisoner is in custody." (page 418.)

Mr. Justice Stewart, writing the concurring opinion, states:

> "The very office of the Great Writ, its only function, is to inquire into the legality of the detention of one in custody." (page 421.)
>
> "*. . . it is a condition upon this Court's jurisdiction to adjudicate an application for habeas corpus that the petitioner be in custody when that jurisdiction can become effective.*" (Emphasis added.)
>
> *Parker v. Ellis*, 362 U.S. 574, 576.

In *Jones v. Cunningham*, 371 U.S. 236, the court defined the words "in custody" and held that restraint on the personal liberty of a petitioner is required before a writ of habeas corpus will issue.

> "*State prisoners are entitled to relief on federal habeas corpus only upon proving that their deten-*

> *tion* violates the fundamental liberties of the person. . . ." (Emphasis added.)
>
> *Townsend v. Sain,* 372 U.S. 293, 312.

The rule stated above and adhered to by the United States Supreme Court is found in the language of the following cases in the lower federal courts.

In *United States ex rel. Walmore v. Tittemore,* 61 F. 2d 909 (C.A. Wis. 1932), the court held that a person discharged on bail is not restrained of his liberty so as to entitle him to a discharge on habeas corpus.

In *Crow v. United States,* 186 F. 2d 704 (C.A. Cal. 1950), the court, on page 706, held that:

> "Relief under habeas corpus is limited to release from present detention. *It is not available to test the legality of threatened detention.*" (Emphasis added.)

In *Roseborough v. People of the State of California,* 322 F. 2d 788 (C.A. Cal. 1963), the court states as follows:

> "An application for a writ of habeas corpus is the assertion of a right against the person having the applicant in custody." (page 789.)

In *Matysek v. United States,* 339 F. 2d 389 (C.A. Cal. 1964), the court discussed the requirements for a writ of habeas corpus and 28 U.S.C.A., §2255.

> "It is elementary that the general rules applying to habeas corpus are applicable to §2255 proceedings." (page 394.)
>
> "Whatever reasons existed for the California Supreme Court to ignore the general rule requiring 'custody,' we are not bound by that decision, and decline to consider it controlling here." (pages 394-395.)

(The above mentioned quote refers to *In re Peterson*, 51 Cal. 2d 177.)

> "Having been cited to no federal cases holding that a person on bail is sufficiently restrained to be in constructive custody, so as to avail himself of §2255, we . . . hold the district court had no jurisdiction to grant or deny relief to appellant." (page 395,)

Lastly, the Pennsylvania Court, in 1965, stated the rule as follows:

> "Of course, if the sentence has expired, or *if the appellant is not in confinement on the present sentence, the case would be moot.*" (Emphasis added.)
>
> *United States ex rel. McDonald v. Commonwealth of Pennsylvania*, 343 F. 2d 447, 449 (C.A. Pa. 1965).

It is submitted that the District Court acted properly in denying the appellant a writ of habeas corpus since he was "not entitled thereto."

> "Habeas corpus may be sought only to effectuate a prisoner's immediate release, and not to test the legality of imprisonment at some future date."
>
> *United States ex rel. Allen v. United States Marshall*, 106 F. Supp. 165 (D.C. Ill. 1952), on page 165.

> "Any attempt, therefore, to test judicially the validity of a judgment order, under which a prisoner is not yet confined, is premature."
>
> *United States ex rel. Allen v. United States Marshall, supra*, page 166.

Conclusion.

Wherefore, the Real Party in Interest prays this Honorable Court affirm the decision of the United States District Court for the Southern District of California, Central Division.

Respectfully submitted,

Roger Arnebergh,
City Attorney,

Philip E. Grey,
Assistant City Attorney,

Allen Uri Schwartz,
Deputy City Attorney,

Attorneys for Real Party in Interest.

NO. 20649

United States Court of App

FOR THE NINTH CIRCUIT

RAMON NOVARRO,

Appellant,

vs.

PETER PITCHESS, Sheriff of the County of Los Angeles, State of California, et al.,

Appellees.

Appeal from denial of petition for writ of habeas by the United States District Court, Southern of California, Central Division.

REPLY BRIEF OF APPELLANT

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Los Angeles, Califor
MAdison 2-8104
Attorney for Appella

NO. 20649

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

RAMON NOVARRO,

Appellant,

vs.

PETER PITCHESS, Sheriff of the County of Los Angeles, State of California, et al.,

Appellees.

REPLY BRIEF OF APPELLANT

TO THE HONORABLE RICHARD H. CHAMBERS, CHIEF JUDGE OF THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT, AND TO THE HONORABLE CIRCUIT JUDGES:

YOUR APPELLANT, RAMON NOVARRO, has found it incumbent upon him to file this brief in reply to the brief filed by the People of the State of California, who are designated by the Honorable Roger Arnebergh, City Attorney of the City of Los Angeles, California, as the "Real Party in Interest" in this matter.

The basis of the brief filed by the alleged "Real Party in Interest" is that appellant, being free on bail on August 20, 1965, is not entitled to petition for a writ of habeas corpus.

This Honorable Court is respectfully requested to take judicial notice of the true facts, as follows:

On October 4, 1962, petitioner and appellant, RAMON NOVARRO, while in the custody of PETER PITCHESS, Sheriff of the County of Los Angeles, State of California, was incarcerated in the County Jail of Los Angeles County, California. While behind bars, a petition was filed on his behalf in the United States District Court for the Southern District of California, Central Division, Case No. 62-1358-JWC, for a writ of habeas corpus.

The Honorable Jesse W. Curtis, judge presiding, issued

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an order ordering the petitioner, RAMON NOVARRO, released from the custody of PETER PITCHESS, Sheriff of Los Angeles County, pending hearing and determination of said petition of RAMON NOVARRO for a writ of habeas corpus.

On October 26, 1962, the petition of RAMON NOVARRO was denied for failure to exhaust his State court remedies, the petitioner not having, as yet, filed a petition for a writ of certiorari with the United States Supreme Court.

Coincident with the ruling in said matter, Judge Jesse W. Curtis issued a restraining order for a period of thirty days against PETER PITCHESS, Sheriff of Los Angeles County, in order that RAMON NOVARRO, the petitioner, be given the opportunity of filing a petition for a writ of certiorari with the United States Supreme Court and a new petition in the United States District Court for the Southern District of California, Central Division, staying and enjoining PETER PITCHESS, Sheriff of Los Angeles County, until such time that the United States Supreme Court shall have had the opportunity of ruling on the petition for a writ of certiorari.

A new petition by petitioner RAMON NOVARRO was filed in the same court, bearing the same title as Case No. 62-1358-JWC

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and is designated Case No. 62-1532-JWC.

This action was pending, and upon notification that petitioner's application for a writ of certiorari to the United States Supreme Court had been denied, counsel for petitioner notified the court and oral permission was requested to amend the petition for a writ of habeas corpus to set forth the additional fact that the United States Supreme Court had denied the petition for a writ of certiorari from the Supreme Court of the State of California.

It was suggested by the court that instead of an amendment, a new petition be filed; and, therefore, the present petition for a writ of habeas corpus, bearing the same title as the original case, and known as Case No. 65-1261-JWC, was filed. In said case, the Honorable Jesse W. Curtis issued a restraining order and permitted the petitioner, RAMON NOVARRO, to be on bail, as had previously been ordered.

Subsequently, on January 7, 1966, Case No. 62-1532-JWC, was dismissed for want of prosecution.

The present matter before this Honorable Court is an appeal from the denial of petitioner's petition for a writ of habeas corpus, No. 65-1261-JWC. This petition is a

continuation of the original petition, No. 62-1358-JWC and 62-1532-JWC.

Petitioner RAMON NOVARRO has complied with the request of the Honorable Jesse W. Curtis by filing a new petition, instead of amending his old petition.

The alleged "Real Party in Interest" seeks to punish RAMON NOVARRO for complying with the desires and wishes of The Honorable Jesse W. Curtis, Judge of the United States District Court for the Southern District of California, Central Division.

Having failed to file a brief on the merits, in opposition to appellant-petitioner NOVARRO's original brief before this Honorable Court, the City Attorney of the City of Los Angeles has instead attempted to mislead this Honorable Court by omitting facts which, if he does represent the "Real Party in Interest," he should be well aware. Further, it is appellant-petitioner's position that the brief filed on his behalf cannot possibly be answered, since the constitutional questions presented therein are clear and obviously in his favor.

That the Honorable Leon R. Yankwich, Judge of the

United States District Court for the Southern District of California, Central Division, subsequently assigned to this case, was (and in all probability is still) willing to allow petitioner NOVARRO to amend his petition so as to allow a hearing on the merits, is indication enough that neither the appellees nor the alleged "Real Party in Interest" care to subject themselves to such a hearing. Rather, they would attack appellant-petitioner on a technical ground which is totally without merit, in that they know that the original action was commenced in the United States District Court for the Southern District of California, Central Division, while petitioner NOVARRO was incarcerated and that the present action is a mere continuation of the suit originally filed in the said District Court.

Respectfully submitted,

JOHN N. FROLICH

Attorney for Appellant

C E R T I F I C A T E

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that in my opinion the foregoing brief is in full compliance with those rules.

DATED: August   , 1966, at Los Angeles, California.

____

Signature of Counsel

PROOF OF SERVICE BY MAIL

STATE OF CALIFORNIA)
) ss.
County of Los Angeles)

I, the undersigned, say: I am and was at all times herein mentioned, a citizen of the United States and employed in the County of Los Angeles, over the age of eighteen years and not a party to the within action or proceeding; that

My business address is 215 West Fifth Street, Los Angeles, California 90013, that on August , 1966, I served the within REPLY BRIEF OF APPELLANT (No. 20649) on the following named parties by depositing a copy thereof, inclosed in a sealed envelope with postage thereon fully prepaid, in the United States Post Office in the City of Los Angeles, California, addressed to said parties at the addresses as follows:

Roger Arnebergh
City Attorney
City of Los Angeles
1902 City Hall
Los Angeles, California

Harold W. Kennedy
County Counsel
County of Los Angeles
648 Hall of Administration
Los Angeles, California

I declare under penalty of perjury that the foregoing is true and correct.

Executed on August , 1966, at Los Angeles, California.

D. A. Standefer

Orig. & 20 copies:
Clerk, U. S. Court of Appeals
For the Ninth Circuit
U. S. Post Office and Court House Bldg.
San Francisco, California 94101

Subscribed and sworn to before me
this day of August, 1966.

Notary Public in and for
the State of California

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

NO. 20649

United States Court of Appeals

FOR THE NINTH CIRCUIT

RAMON NOVARRO,

Appellant,

vs.

PETER PITCHESS, Sheriff of the County of Los Angeles, State of California, et al.,

Appellees.

Appeal from the United States District Court, Southern District of California, Central Division

PETITION FOR REHEARING

JOHN N. FROLICH
411 West Seventh Street
Los Angeles, California
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Attorney for Appellant

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TABLE OF AUTHORITIES CITED

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IN THE

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Appellees.

Appeal from the United States District Court, Southern District of California, Central Division.

PETITION FOR REHEARING

INTRODUCTORY STATEMENT

Your appellant, as a part of his petition herein, hereby refers to his opening and reply briefs, submitted to this Honorable Court on this appeal, and incorporates each and every part thereof as though fully set out at length.

PETITIONER HAS BEEN DENIED DUE PROCESS AND HIS RIGHT TO A HEARING UNDER THE FIFTH, SIXTH AND FOURTEENTH AMENDMENTS OF THE UNITED STATES CONSTITUTION, AND THE DENIAL OF A HEARING BY THE DISTRICT COURT VIOLATED THOSE PRINCIPLES ENUNCIATED BY THE UNITED STATES SUPREME COURT IN *TOWNSEND v. SAIN.*

In *Townsend v. Sain,* 372 U.S. 293, 313-314, 9 L. Ed. 2d 770, at 786, the Supreme Court stated that the "Federal Court must grant an evidentiary hearing to a habeas applicant under the following circumstances: If (1) the merits of the factual dispute were not resolved in the state hearing; (2) the state factual determination is not fairly supported by the record as a whole; (3) the fact-finding procedure employed by the state court was not adequate to afford a full and fair hearing; (4) there is a substantial allegation of newly discovered evidence; (5) the material facts were not adequately developed at the state court hearing or (6) for any reason it appears that the state trier of fact did not afford the habeas applicant a full and fair fact hearing.

"(1) There cannot even be the semblance of a full and fair hearing unless the state court actually reached and decided the issues of fact tendered by the defendant . . . No relevant findings have been made unless the state court decided the constitutional claim tendered by the defendant on the merits . . . "

Note that petitioner has never been granted a hearing by the state courts on his constitutional claim nor has a state court rendered an opinion thereon, other than denial of his application.

In *Sanders v. United States,* 373 U.S. 1, 19, 10 L. Ed. 2d

148, at 163, the Court states that the better practice, if petitioner's pleading is deficient, is "to direct petitioner to amend his motion, see *Stephens v. United States*, 246 F. 2d 607 . . ."

Petitioner has never been given an opportunity to amend his petition. The suggestion by the Circuit Court, in its opinion at page 2, that appellant was afforded an opportunity to amend his petition but declined, is not in accord with the facts (see petitioner's opening brief at pages 5 and 20). Petitioner's application for a writ was summarily denied without a hearing and petitioner was then, and prior to his appeal herein, denied any opportunity to amend his petition.

Subsequent to the filing of the original briefs and oral argument in the present case, we discovered a case similar to our own (as to treatment by the court). In *Green v. Bomar*, 329 F. 2d 796, in a habeas corpus proceeding by a state prisoner, the Circuit Court of Appeals for the Sixth Circuit affirmed the denial of petitioner's writ by the District Court on the ground that "it was apparent on the face of the petition that no constitutional rights of the appellant had been violated"; nevertheless, the Supreme Court, in reliance upon *Townsend v. Sain, supra*, 372 U.S. 293, in a *per curiam* order, "remanded to the United States District Court . . . for a hearing . . ."

THE STATE OF CALIFORNIA, THROUGH ITS LOCAL POLICE AND PROSECUTING AGENCIES, HAS DENIED PETITIONER EQUAL PROTECTION UNDER THE FOURTEENTH AMENDMENT OF THE UNITED STATES CONSTITUTION.

In *McLaughlin v. Florida,* 379 U.S. 184, 196, 13 L. Ed. 2d 222, at 231, the Court struck down "an exercise of the state police power which trenches upon the constitutionally protected freedom from invidious official discrimination based on race." In a more recent case, *Rinaldi v. Yeager,* 16 L. Ed. 2d 577, the Supreme Court held that it was likewise an invidious discrimination to require repayment of a trial transcript by a state prisoner, where no such repayment was required of one who had been fined, given a suspended sentence, or placed on probation. Petitioner herein is likewise the subject of an invidious discrimination, in that the State of California required him -- because he was on bail -- to answer to a complaint signed merely on information and belief; whereas prisoners who lack the resources to afford bail can be held to answer only if the arresting officer himself signs the complaint.

PETITIONER HAS BEEN DENIED DUE PROCESS UNDER THE FOURTH AMENDMENT TO THE UNITED STATES CONSTITUTION AS IT IS INCORPORATED IN THE FOURTEENTH.

No valid complaint was ever signed, and petitioner was found guilty in a proceeding in which no formal charge was made. In *Parr v. United States,* 363 U.S. 370, 394, 4 L. Ed. 2d 1277, at 1292, the Court said:

> " . . . Under our vaunted legal system, no man, however bad his behavior, may be convicted of a crime of which he was not charged, proven and found guilty

in accordance with due process."

CONCLUSION

Wherefore, appellant prays this Honorable Court for a rehearing and for the relief sought in his opening brief before this Honorable Court.

Respectfully submitted,

JOHN N. FROLICH

Attorney for Appellant,
Petitioner Herein.

CERTIFICATE OF COUNSEL

I, JOHN N. FROLICH, certify that I am the attorney for the appellant in this cause; that I make this certificate in compliance with Rule 23 of the Rules of this Court; that I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that in my opinion the foregoing brief is in full compliance with those rules; and that the within and foregoing petition for rehearing is well founded and is not interposed for delay.

JOHN N. FROLICH

PROOF OF SERVICE BY MAIL

STATE OF CALIFORNIA)
) ss.
County of Los Angeles)

I, the undersigned, say: I am and was at all times herein mentioned, a citizen of the United States and employed in the County of Los Angeles, over the age of eighteen years and not a party to the within action or proceeding; that

My business address is 215 West Fifth Street, Los Angeles, California 90013, that on December 12th, 1966, I served the within PETITION FOR REHEARING (No. 20649) on the following named parties by depositing a copy thereof, inclosed in a sealed envelope with postage thereon fully prepaid, in the United States Post Office in the City of Los Angeles, California, addressed to said parties at the addresses as follows:

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County Counsel
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648 Hall of Administration
Los Angeles, California

I declare under penalty of perjury that the foregoing is true and correct.

Executed on December 12th, 1966, ~~at Los Angeles, California.~~

D. A. Standefer
D. A. Standefer

Orig & 20 copies: Clerk, U. S. Court of Appeals
For the Ninth Circuit
U. S. Post Office and Court House Bldg.
San Francisco, California 94101

Subscribed and sworn to before me
this day of December, 1966.

____
Notary Public in and for
the State of California.

No. 20653

In The

United States Court of Appeals

FOR THE NINTH CIRCUIT

RICHARD C. PRICE,
Petitioner,

v.

NATIONAL LABOR RELATIONS BOARD,
Respondent.

On Petition for Review of an Order of the National Labor Relations Board

BRIEF

For Richard C. Price

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In The

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Respondent.

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BRIEF FOR RICHARD C. PRICE

JURISDICTION

This case is before the Court upon the petition of Richard C. Price, pursuant to Section 10(f) of the National Labor Relations Act, as amended (61 Stat. 136, 73 Stat. 519, 29 U.S.C., Sec. 151, *et seq.*), herein called "the Act," for review of a Decision and Order (R. 22-27)[1] of the National Labor Relations Board, herein called "the Board," issued on August 25, 1965.

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[1] References to formal documents reproduced as "Volume I, Pleadings" are designated "R."

The Board's Decision and Order are reported at 154 NLRB No. 54. This Court has jurisdiction under Section 10(f) of the Act, the alleged unfair labor practices having occurred in Santa Clara, California, within this judicial circuit.

STATEMENT OF THE CASE

I. The Stipulated Facts

The facts ruled upon by the Board were stipulated (R. 14-19; 20; 21), and are as follows: [2]

For many years Pittsburgh-Des Moines Steel Company, herein called "Pittsburgh-Des Moines," and United Steelworkers of America, AFL-CIO, herein called "the Steelworkers," have been parties to, and have maintained in effect, a series of collective bargaining contracts covering employees at the Santa Clara, California, plant of Pittsburgh-Des Moines (R. 15). One such contract was effective from September 1, 1962, to September 1, 1964, and was entered into by the Steelworkers on behalf of an affiliated local union, Local 4028. The contract contained a union security provision requiring all employees who became members of Local 4028 after September 1, 1962, and all employees hired after that date who completed a 30-day probationary period of employment, to pay, as a condition of their continued employment, union membership dues during the contract's term (R. 15-16).[3] A successor agreement between the parties,

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[2] The taking of testimony, and the making of findings of fact and conclusions of law by a Trial Examiner, were waived; the Board's Decision and Order were based upon the stipulated facts (R. 20-23).

[3] Local 4028 admitted that, under the union security provision of the 1962-1964 contract between Pittsburgh-Des

operative from September 1, 1964, to September 1, 1967, contained a similar union security provision (R. 16-17).

Richard C. Price, the Petitioner herein, first became an employee of Pittsburgh-Des Moines in 1951. Thereafter, except for a two-year period of military service, Price worked at the Santa Clara plant continuously through the year 1964. Price was subject to the union security provisions in both the 1962 and 1964 contracts; he was a dues-paying member of Local 4028 from 1951 until June 10, 1964 (R. 17).

On April 15, 1964, in Board Case No. 20-UD-60, Price filed with the Regional Director of the Board's Twentieth Region a formal petition to rescind the authority of the Steelworkers to enter into a union security provision covering employees at the Santa Clara plant (R. 3, 16). Price, however, made a mistake in filing this petition. He actually had intended to file a petition to decertify the Steelworkers, that is, to establish by an election that the Steelworkers did not have the requisite support to represent the employees at the Santa Clara plant for collective bargaining purposes. Accordingly, Price sought, and on April 24 was granted, permission to withdraw the deauthorization petition he had filed in Case No. 20-UD-60 (R. 4, 16). Thereafter, on June 3, 1964, in Board Case No. 20-RD-384, Price filed a second petition in which he in fact sought the decertification of the Steelworkers (R. 5, 16).[4]

Moines and the Steelworkers, membership in Local 4028 was a condition precedent to employment at the Santa Clara plant (Answer to Complaint; R. 11).

[4] On August 14, 1964, an election was held on Price's decertification petition. United Steelworkers of America, Dis-

On May 13, 1964, three employees of Pittsburgh-Des Moines, who were also union members, filed a charge with Local 4028 against Price. The charge alleged that Price had violated the Steelworkers' Constitution by filing the deauthorization petition in Case No. 20-UD-60 (R. 17).[5] On June 1, 1964, Price appeared before Local 4028's Trial Committee. The Committee found Price guilty as charged, and recommended that penalties be imposed on him. On June 10, 1964, Local 4028's general membership approved and accepted the Trial Committee's findings and recommendations, and thereby imposed on Price the following penalties: (1) suspension from membership in Local 4028 for five years; (2) preclusion from attending Local 4028's meetings for five years; (3) a fine of $500 plus costs of the hearing before Local 4028's Trial Committee; and (4) indefinite suspension from membership in Local 4028 pending payment of the $500 fine (R. 17-18).

Price's reaction to the penalties thus imposed was two-fold: he appealed Local 4028's action to the Steelworkers' Executive Board (R. 18); and, on June 11, 1964, he filed with the Board an unfair labor practice charge (R. 6, 14). As a result of Price's unfair labor practice charge, the Board's General Counsel issued

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trict 38, AFL-CIO, won the election, and was certified by the Regional Director on August 24, 1964 (R. 7, 16).

[5] Price was charged with violating Article XII, Section 1(d) of the Steelworkers' Constitution, which provides (R. 17):

> Any member may be penalized for committing any one or more of the following offenses: . . . advocating or attempting to bring about the withdrawal from the International Union of any Local Union or any member or group of members . . . .

an unfair labor practice complaint in Case No. 20-CB-1231, alleging that Local 4028 had violated Section 8(b)(1)(A) of the Act. The complaint against Local 4028, which complaint underlies the Board's decision being reviewed in this case, was issued on November 5, 1964 (R. 8-10, 14). Thereafter, on November 23, 1964, the Steelworkers' Executive Board withdrew the $500 fine, but left in full effect the other penalties imposed on Price (R. 18). Price was privileged to appeal the Executive Board's decision to the regular Steelworkers' Convention; the time to file such an appeal expired, however, without Price exercising the privilege (R. 18-19).

II. The Board's Decision and Order

Rejecting the General Counsel's argument that its decision in *Local 138, Operating Engineers (Charles S. Skura)*, 148 NLRB 679, was controlling, and relying instead on its decision in *Tawas Tube Products, Inc.*, 151 NLRB No. 9, 58 LRRM 1330, the Board held that Local 4028 had not violated Section 8(b)(1)(A) of the Act by the action it took against Price because of the petitions he filed with the Board pertaining to Local 4028's representation of Pittsburgh-Des Moines employees (R. 22-27). The Board rested its holding on two premises:[6] (1) its implicit characterization of Local 4028's action against Price as "union disciplinary action aimed at defending itself [Local 4028] from conduct which seeks to undermine

[6] The Board set forth its conclusion that "the reasoning in *Tawas Tube* is equally applicable in the instant case" (R. 27); but it did not particularize about the application of *Tawas Tube* to the facts pertaining to the complaint against Local 4028. Consequently, one of the premises underlying the Board's holding appears by implication only.

its very existence" (R. 26); and (2) its explicit statement that the $500 fine levied against Price was not "an operative factor in this case," because the fine was withdrawn by the Steelworkers' Executive Board (R. 27).[7] Because of its holding, the Board ordered the dismissal of the complaint against Local 4028 (R. 27).

SPECIFICATION OF ERRORS

1. Although Local 4028 imposed a fine of $500 and other penalties on Price, one of its members, because Price had filed with the Board petitions seeking the decertification and deauthorization of Local 4028, the Board nevertheless concluded that Local 4028 did not thereby violate Section 8(b)(1)(A) of the Act. The Board's conclusion rests primarily on its view that Local 4028's action was privileged because Local 4028 was defending itself against conduct that sought to undermine its existence. The Board's conclusion cannot be sustained, however, because: (a) Section 8 (b)(1)(A) affords protection to union members who invoke the Board's processes; (b) the public interest in protecting the Board's processes is paramount to whatever immunity the Act grants to unions in the regulation of their internal affairs; (c) employees, under Section 7 of the Act, are granted a specific right to refrain from joining or assisting labor organizations, and to refrain from engaging in con-

[7] Although the Board found that the Steelworkers' Executive Board withdrew the fine against Price and left in force Price's suspension from membership (R. 25, 27), the Board failed to find, or even note, that the Executive Board also left in force Local 4028's verdict that Price be made to pay the costs of the hearing held by its Trial Committee.

certed activities for the purpose of collective bargaining; (d) the right so to refrain is implemented by the right accorded employees, under Sections 9(c)(1)(A)(ii) and 9(e)(1), to petition for union decertification or deauthorization; (e) record facts are lacking to show that Price's petitions jeopardized Local 4028's existence; and (f) the Board's conclusion is inconsistent with other Board holdings to the effect that union members may not be fined for initiating unfair labor practice proceedings which, like the petitions Price filed with the Board, may undermine a union's status as bargaining representative.

2. The Board's conclusion that Local 4028 did not violate Section 8(b)(1)(A) rests in part on its finding that, because the $500 fine imposed on Price was subsequently withdrawn, the fine did not amount to an operative factor in the case. The Board's finding in this respect is clearly wrong because: (a) a fine imposed on an employee by a union is by nature coercive; (b) the fine levied against Price remained in effect for more than five months, and was withdrawn only after the Board's General Counsel had issued an unfair labor practice complaint against Local 4028; (c) the fact that the fine was withdrawn is not a material consideration, not only because an illegal practice may be resumed, but also because Board orders have a preventive as well as remedial purpose; and (d) the test of intimidation and coercion within the meaning of Section 8(b)(1)(A) is whether misconduct may reasonably tend to coerce or intimidate employees in the exercise of rights protected under the Act.

ARGUMENT

I. The Board Erred in Failing to Find that Section 8(b)(1)(A) of the Act Prohibits Local 4028 from Punishing a Member in Reprisal for the Filing of a Decertification or Deauthorization Petition.

As the Board found, Price, a member of Local 4028, was fined $500, was assessed the costs of a union hearing, and was suspended from union membership and precluded from attending Local 4028's meetings, because he filed with the Board two petitions: one, seeking to rescind the authority of the Steelworkers to enter into a union security provision affecting employees of Pittsburgh-Des Moines; the other, seeking to decertify the Steelworkers as the bargaining representative of such employees. Out of these facts, there is presented an issue concerning, in essence, the power of a union to punish its members in order to prevent, or delay, their access to the procedures of the National Labor Relations Board.

The Board concluded that Local 4028 was, in the circumstances, privileged to penalize Price. The paramount consideration, according to the Board, was that Local 4028 was defending itself against "conduct" that tended to undermine its status as the bargaining representative of Pittsburgh-Des Moines employees. Below it is shown that the Board's decision subverts both the right guaranteed employees by Section 7 of the Act not to be represented by a union for collective bargaining purposes, as well as the Section 9(c)(1) and 9(e)(1) rights of employees to invoke the processes of the Board to implement their right not to be so represented. It is also shown that the Board's decision in this case is incompatible with a prior Board holding—a holding that has express judicial

support—that a union cannot regulate the access of its members to the Board's processes.

A. *Section 8(b) (1) (A) Reaches Union Conduct that Impedes or Delays Union Members from Resort to the Board.*

A Board decision, *Local 138, Operating Engineers (Charles S. Skura)*, 148 NLRB 679, sets forth the rationale that controls the disposition of this case. In *Skura*, a union imposed a $200 fine on one of its members, Skura, for having filed with the Board an unfair labor practice charge in which he had alleged that the union had discriminatorily refused to refer him to available employment. Noting the analogous principle that an employer violates Section 8(a)(1) of the Act if it resorts to restraint and coercion in order to restrict the right of an employee to file an NLRB charge, the Board said that a labor organization likewise infringes employee rights, and thereby violates Section 8(b)(1)(A) of the Act, if it uses restraint or coercion for the same purpose. Accordingly, the Board held that the union's restraint and coercion of Skura was violative of Section 8(b)(1)(A). To the union's contention that Skura had violated union bylaws by filing the NLRB charge without first exhausting internal union remedies, and that, therefore, the proviso to Section 8(b)(1)(A) privileged the fine imposed on him, the Board conceded that, in its view of the law,[8] the proviso to Sec-

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[8] By according the concept of "internal union affairs" an expansive meaning, and by broadening the scope of permissive union discipline, the Board has markedly narrowed the reach of Section 8(b)(1)(A) of the Act. See *Local 283, UAW, AFL-CIO (Wisconsin Motor Corporation)*, 145 NLRB 1097; *Local 248, UAW, AFL-CIO (Allis-Chalmers Manufac-*

tion 8(b)(1)(A) immunizes a union from Board remedial action with respect to the enforcement of internal union rules by means other than job discrimination; but such immunity, the Board said further, extended only to "a union rule which . . . [does] not run counter to other recognized public policies and, therefore, [is] not beyond the competence of the union to adopt and enforce" (148 NLRB at 682). And the rule embodied in the union's bylaws, concluded the Board, was subordinate to the dominant public interest at stake. The Board thus phrased the matter (148 NLRB at 682):

> By the rule under consideration here, however, Respondent attempted to regulate its members' access to the Board's processes. Considering the overriding public interest involved, it is our opinion that no private organization should be permitted to prevent or regulate access to the Board, and a rule requiring exhaustion of internal union remedies by means of which a union seeks to prevent or limit access to the Board's processes is beyond the lawful competency of a labor organization to enforce by coercive means.

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turing Company), 149 NLRB 67. The soundness of the Board's construction of Section 8(b) (1) (A) is dubious; the construction was rejected by the Seventh Circuit in *Allis-Chalmers Manufacturing Company* v. *N.L.R.B.*, 61 LRRM 2498 (March 11, 1966), and it was criticized by this Court in *Associated Home Builders of the Greater East Bay, Inc.* v. *N.L.R.B.*, 352 F.2d 745.

In view of the controlling significance of the other factors present in this case, particularly the rationale set forth in the Board's decision in the *Skura* case, this brief does not treat with the questionable construction of Section 8(b) (1) (A) embodied in the Board's *Allis-Chalmers* and *Associated Home Builders* decisions.

The rationale of the *Skura* case was expressly approved by the Court of Appeals for the District of Columbia Circuit in *Roberts* v. *N.L.R.B.*, 350 F.2d 427.[9] There, one Martin had been fined $450 and placed on probation by the union of which he was a member because he, too, had filed NLRB charges alleging union discrimination against himself; as in *Skura*, the union involved defended on the ground that Martin had failed to exhaust internal union remedies before resorting to the Board; and the Board found (*Wellman-Lord Engineering, Inc.*, 148 NLRB 674), for the reasons it had expressed in *Skura*, that the union had violated Section 8(b)(1)(A) of the Act. The Court enforced the Board's order. "The right of an employee to file charges," the Court said, "is protected under Section 7." Like the Board in the *Skura* case, the Court rejected the argument that the fine it imposed on Martin amounted only to "an internal union affair," saying (350 F.2d at 429):[10]

> In other words, by filing a charge with the Board in this case Martin stepped beyond the internal

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[9] In two later cases, the Board expressly reaffirmed its *Skura* holding: *International Union of Operating Engineers, Local 925*, 154 NLRB No. 56, 60 LRRM 1009; *Millwrights & Machinery Erectors, Local Union 1510*, 152 NLRB No. 132, 59 LRRM 1310 (statement that a union member "could be fined if he took his case to the Board"). In *Wood, Wire & Metal, etc., Local 238*, 156 NLRB No. 93, 61 LRRM 1172, the Board extended the *Skura* principle to protect union members who did not occupy an "employee" status.

[10] The Court expressly noted that the language of the proviso to Section 8(b)(1)(A) could not justify the union's action, saying (350 F.2d at 427, n.2): ". . . the imposition of the fine in this case was too remote from a rule with respect to the acquisition or retention of membership to be protected by the mere language of the proviso."

> affairs of the Union and into the public domain. The Act, in enabling the Board to inhibit the Union from penalizing him for doing so keeps open the channels created by Congress for the administration of a public law and policy. This is not, we agree with the Board, an inroad upon those internal union affairs left by the Act and its policy to be administred solely by the Union.

1. *Controlling authorities and considerations support the doctrines embodied in the Skura and Roberts cases.*

The *Skura* and *Roberts* cases embody two basic doctrines: the first is that Section 8(b)(1)(A) of the Act affords protection to union members who invoke the processes of the Board; the second is that the public interest in protecting the Board's processes is paramount to whatever immunity the Act grants to unions in the regulation of their internal affairs. Each of these doctrines is firmly bottomed, moreover, on controlling authorities and considerations.

As for the scope of Section 8(b)(1)(A), the legislative history leaves no doubt that Congress intended, by enacting the section, to protect against union intimidation the same rights which Section 8(a)(1) protects against employer intimidation. See the remarks of Senators Taft and Ball when the provision was debated in the Senate, 93 *Daily Congressional Record*, 4136-4138, 4142, April 25, 1947; *2 Legislative History of the Labor Management Relations Act of 1947*, pp. 1018-1021, 1025 (hereinafter cited as "Leg. Hist."). As the Supreme Court said in *ILGWU* v. *N.L.R.B. and Bernhard-Altmann*, 366 U.S. 731, 738:

> In the Taft-Hartley Law, Congress added § 8 (b)(1)(A) to the Wagner Act, prohibiting, as

> the Court of Appeals held, "unions from invading the rights of employees under § 7 in a fashion comparable to the activities of employers prohibited under § 8(a)(1) . . . ." It was the intent of Congress [in enacting Section 8(b)(1)(A)] to impose upon unions the same restrictions which the Wagner Act imposed upon employers with respect to violations of employee rights.

Accordingly, the Board and the courts have uniformly prohibited, under the "restraint and coercion" sections of the Act, all restrictions upon free access to Board processes, whether imposed by employers or unions.

Thus, employers violate Section 8(a)(1) of the Act not only by punishing employees who have invoked Board processes,[11] but by encouraging or inducing employees to withdraw Board charges;[12] or by "coaching" employees called upon to testify at Board hearings, instructing them how to answer the questions of a Board field examiner, or procuring false testimony for use at a Board hearing.[13] Likewise, employers may not discourage or prevent employees

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[11] *Gibbs Corp.*, 131 NLRB 955, 956, 963, *enf'd*, 308 F.2d 247 (C.A. 5); *Pacific Intermountain Express*, 110 NLRB 96, 108-109, *enf'd*, 228 F.2d 170 (C.A. 8), *cert. denied*, 351 U.S. 952.

[12] *Clyde Taylor*, 127 NLRB 103, 108; *Clearfield Cheese Co.*, 106 NLRB 417, 418, *enf'd*, 213 F.2d 70 (C.A. 3); *Cambria Clay Products Co.*, 106 NLRB 267, *enf'd*, 215 F.2d 48 (C.A. 6); *Brady Aviation Corp.*, 110 NLRB 25, 27, *enf'd*, 224 F.2d 23 (C.A. 5); *West Texas Utilities Co.*, 22 NLRB 522, 542.

[13] *Petroleum Carrier Corp. of Tampa, Inc.*, 126 NLRB 1031; *Lloyd A. Fry Roofing Co.*, 123 NLRB 647, 648; *Jackson Tile Mfg. Co.*, 122 NLRB 764, 766, *enf'd*, 272 F.2d 181 (C.A. 5); *Tri-County Employers Ass'n.*, 103 NLRB 653, 673.

from appearing as witnesses at Board inquiries,[14] nor may they interfere with the confidentiality of Board investigations by demanding copies of employee statements to investigators.[15] In parallel course, Section 8(b)(1)(A) has been held to prohibit a union from threatening reprisals against an employee because he intends to give testimony to the Board,[16] or because he filed Board charges,[17] against the union.

Nor is the protection that is thus accorded employees limited to conduct that falls strictly within the language of Section 8(a)(4) of the Act. That section expressly makes it unlawful for an employer to "discriminate against an employee because he has filed charges or given testimony under this Act," but

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[14] *Duralite Co., Inc.,* 128 NLRB 648; *Winn Dixie Stores, Inc.,* 128 NLRB 574, 578-579; *Alterman Transport Lines, Inc.,* 127 NLRB 803, 804; *Chatauqua Hardware Corp.,* 103 NLRB 723, 728, *enf'd,* 208 F.2d 750 (C.A. 2); *Superior Company, Inc.,* 94 NLRB 586, 587, *enf't denied on evidentiary grounds,* 199 F.2d 39, 44 (C.A. 6); *Sanco Piece Dye Works,* 38 NLRB 690, 725-726.

[15] *Henry I. Siegel,* 143 NLRB 386; *Hilton Credit Corp.,* 137 NLRB 56; *Texas Industries, Inc.,* 139 NLRB 365, 367-368, *enf'd,* 336 F.2d 128, 132-134 (C.A. 5).

[16] *International Ass'n. of Bridge Workers, Local 84,* 112 NLRB 1059, 1060; *Textile Workers Union (Personal Products Co.),* 108 NLRB 743, 749, *enf'd in relevant part,* 227 F.2d 409, 411 (C.A.D.C.).

[17] *Shipwrecking, Inc.,* 136 NLRB 1518, 1519, 1529; *Bordas & Co.,* 125 NLRB 1335, 1336, *enf'd,* 288 F.2d 132, 109 U.S. App. D.C. 348; *Local 138, Operating Engineers,* 123 NLRB 1393, 1396, *enf'd in relevant part,* 293 F.2d 187, 193-196 (C.A. 2); *Local 450, Operating Engineers,* 122 NLRB 564, 568, *enf'd,* 281 F.2d 313, 317 (C.A. 5), *cert. denied,* 366 U.S. 909; *Local 294, Int'l. Brotherhood of Teamsters (Valetta Trucking Co.),* 116 NLRB 842, 844.

other forms of conduct which impede resort to the Board likewise have been prohibited. For example, an employer violates the Act by discriminating against a *supervisor* who files charges or gives testimony,[18] or against an employee *erroneously thought* to have filed charges.[19] And employers and unions alike have been found guilty of unfair labor practices where an employee was subjected to blandishments, allurements, rebukes or threats which did not amount to actual discrimination,[20] or where there was discrimination against employees whose cooperation with the Board did not include the filing of charges or the giving of testimony.[21] In the context of this case, it is important to note that the Board has specifically extended the protection of Section 8(a)(4) of the Act to employees who prepared and filed decertification petitions with the Board. *Aristocrat Inns of America, Inc.*, 146 NLRB 1599, 1600; *Precision Fittings, Inc.*, 141 NLRB 1034, 1035, 1043.[22]

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[18] *Pederson* v. *N.L.R.B.*, 234 F.2d 417 (C.A. 2); *Better Monkey Grip Co.*, 115 NLRB 1170, *enf'd*, 243 F.2d 863 (C.A. 5), *cert. denied*, 355 U.S. 864.

[19] *Gibbs Corporation, supra*, n. 11.

[20] See cases cited *supra*, n. 17.

[21] *Chatauqua Hardware, supra*, n. 14 (attendance at Board hearing); *Hilton Credit, supra*, n. 15 (cooperating with Board investigator).

[22] Discrimination for giving testimony at a Board *representation proceeding* is a violation of Section 8(a)(4). See, for example, *Pacemaker Corporation* v. *N.L.R.B.*, 260 F.2d 880 (C.A. 7); *N.L.R.B.* v. *Southern Bleachery & Print Works*, 257 F.2d 235 (C.A. 4), *cert. denied*, 359 U.S. 911; *Universal Packaging Corporation*, 149 NLRB 262, 268; *Lindsay Newspapers, Inc.*, 130 NLRB 680, 681, *enforced in this respect*, 315 F.2d 709 (C.A. 5).

With respect to the primacy of the Board's processes, it is true the legislative history underlying Section 8(b)(1)(A) of the Act affords some basis for the proposition that Congress, in enacting the section, did not intend to impose regulations on the legitimate internal affairs of unions.[23] But there is nothing whatever in the legislative history to warrant an impression that the right of resort to the Board is an "internal union matter" over which union autonomy was to be established.

Nor may it be said that a union has any legitimate interest in restricting a member's access to the Board. Thus, the familiar provision of some union constitutions, forbidding members from bringing legal proceedings against the union or its members, has been repeatedly characterized as void and contrary to public policy.[24] As the Court of Appeals for the Second Circuit recently stated in *Salzhandler* v. *Caputo, et al.*, 316 F.2d 445, 450:

> [I]t would seem clearly in the interest of proper and honest management of union affairs to permit members to question the manner in which

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[23] See, for example, the remarks of Senator Ball on the Senate floor, 93 *Daily Congressional Record* 4400, 4559, April 30 and May 2, 1947; *2 Leg. Hist.* 1141, 1200.

[24] Cox, *Internal Affairs of Labor Unions and the Labor Reform Act of 1959*, 58 Mich. L. Rev. 819, 837, 839; Aaron, *The Labor-Management Reporting and Disclosure Act of 1959*, 73 Harv. L. Rev. 851, 871; *Collins* v. *I.A.T.S.E.*, 119 N.J. Eq. 230, 182 Atl. 37, 46; *Spayd* v. *Ringling Rock Lodge*, 270 Pa. 67, 113 Atl. 70, 72-73.

The 1959 Landrum-Griffin amendments, discussed more fully *infra*, at pp. 26-31, crystalized this existing policy and declared it as federal law. Cox, *op. cit. supra; Local 636 United Ass'n.* v. *N.L.R.B.*, 287 F.2d 354, 360 (C.A.D.C.).

> union officials handle the union's funds and how they treat the union's members.

That a union may be required to expend additional sums or to suffer annoyances and inconveniences because of a member's decision to invoke legal process, is, therefore, immaterial. See *Clark* v. *Lindemann & Hoverson Co.*, 88 F.2d 59, 60-61 (C.A. 7).

In sum, there is nothing sacrosanct about the concept of internal union discipline. Certainly, all subjects do not become appropriate for the invocation of union discipline simply because the union has enacted a rule upon those subjects.[25] On the other hand, a union member's right of access to the Board's processes should be, and is, absolute; and interference with that right, whether by union rule or otherwise, should be, and is, against public policy. For Board procedures are "not to be controlled at the whim of a private party to the neglect of the public interest," *N.L.R.B.* v. *Monsanto Chemical Company*, 205 F.2d 763, 765 (C.A. 8).

2. *The Act gives employees the right to petition for union decertification and deauthorization.*

Section 7 of the Act gives to employees the right to join or assist labor organizations, and to engage in concerted activities for the purpose of collective bargaining or other mutual aid or protection; it likewise gives them the "right to *refrain from any or all of such activities.*" That there exists "tension" between the employee rights thus protected by Section 7 cannot be denied. See *N.L.R.B.* v. *Drivers Local Union*

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[25] See, for example, *I.A.M.* v. *Street,* 367 U.S. 740 (union may not expend dues collected for support of political causes over member objections).

No. 639, 362 U.S. 274, 279-280. Clearly, however, the "right to refrain" becomes illusory if employees, having once designated a bargaining representative or authorized a union security agreement, are thereafter precluded from withdrawing the authority they have bestowed. The procedures set forth in Sections 9(c)(1)(A)(ii) and 9(e)(1) of the Act not only are tools in effectuating the employee "right to refrain," but, as shown below, they also denote an additional employee statutory right—the right to petition for union decertification or deauthorization.

In the words of Senator Taft, the purpose of a decertification petition, provided for in Section 9(c)(1)(A)(ii) of the Act, is to afford employees an opportunity "to decertify a particular union" or "to decertify a union and go back to a nonunion status, if the men so desire." 93 *Daily Congressional Record* 1013, April 23, 1947, *2 Leg. Hist.* 1013. And the leglislative history pertaining to Section 9(c)(1)(A)(ii) shows that Congress intended to grant employees wishing such "nonunion status" a *right* to petition the Board for the Union's decertification. Thus, the pertinent House Report, H. Rep. No. 245, 80th Cong., 1st Sess. 35, *1 Leg. Hist.* 326, stated:

> Although the terms of the Act would permit them to do so, the Board has denied to employees who have designated an exclusive representative the *right* to have it decertified unless, at the same time, they subject themselves to control by another representative. The bill restores to employees this *right* of which the Board deprived them . . . . [Emphasis added.]

See also, S. Rep. No. 105, 80th Cong., 1st Sess. 10, 25, *1 Leg. Hist.* 416, 431; H. Conf. Rep. No. 510, 80th Cong., 1st Sess. 50, *1 Leg. Hist.* 554. Statements by

legislators show their understanding that the *right* to petition for decertification was given to "discontented" or "dissident" employees. *1 Leg. Hist.* 653 (Congressman Klein); *1 Leg. Hist.* 693-694 (Congressman Powell); *2 Leg. Hist.* 1581 (Senator Murray). This Congressional intent has been effectuated by subsequent Board and court rulings.[26]

The purpose of a deauthorization petition, under Section 9(e)(1) of the Act,[27] is to safeguard employees against subjection to, and possible loss of employment under, a union shop agreement which a majority disapproves. *D. M. Bare Paper Company,* 99 NLRB 1487; *Great Atlantic & Pacific Tea Company,* 100 NLRB 1494, 1497; see S. Rep. No. 105, 80th

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[26] See, for example, *Retail Clerks International Association* v. *Montgomery Ward & Co.,* 316 F.2d 754, 757 (C.A. 7); *Kraft Foods Company,* 76 NLRB 492-495 (withdrawal from union membership held not prerequisite to filing a decertification petition); *Harris Foundry & Machine Company,* 76 NLRB 118, 120 (union's noncompliance with the then filing requirements of the Act held not to immunize against decertification proceedings); *Federal Shipbuilding & Drydock Company,* 76 NLRB 413 (employee's reason for filing decertification petition held immaterial); *Morse & Morse, Inc.,* 83 NLRB 383, 384 (union officer held competent to file decertification petition).

[27] Between 1947 and 1951, Section 8(a)(3) of the Act provided that a certified union might not seek a union-shop contract unless authorized by employees in a Board conducted election. The Act also provided, in the then Section 9(e)(2), that employees might rescind such authorization by a majority vote in a deauthorization election. In 1951, Sections 8(a)(3) and 9(e) were amended to remove the union-shop authorization election as a condition to a valid union-security contract, but the provision for deauthorization was retained as the present Section 9(e)(1).

Cong., 1st Sess. 26, *1 Leg. Hist.* 432; H. Rep. No. 1082, 82nd Cong., 1st Sess. 3; S. Rep. No. 646, 82nd Cong., 1st Sess. 1-2. Union deauthorization elections, and the filing of petitions therefor, have been recognized by the Board as statutory *rights* granted employees. Thus, in *Hydraulics Unlimited Manufacturing Co.*, 107 NLRB 1646, the Board said:

> . . . it has long been established that *employee rights guaranteed by Section 9(e)* of the Act cannot be bargained away by a private agreement in derogation of their statutory *rights.* [Emphasis added.]

Accord: The Mennen Company, 108 NLRB 348, 349; *Wakefield's Deep Sea Trawlers, Inc.*, 115 NLRB 1024, 1025; *Great Atlantic & Pacific Tea Company, supra*, at 1499.

3. *The Board's decision is incompatible with the Skura and Roberts cases, and reaches an incongruous result.*

As set forth in the factual statement herein, the Board condoned Local 4028's acts against Price principally on the ground that Local 4028's action was "union disciplinary action aimed at defending itself from conduct which seeks to undermine its very existence." In so doing, the Board treated its holding in the *Skura* case, *supra*, page 9, as "inapplicable," and relied instead on its "reasoning" in *Tawas Tube Products, Inc.*, 151 NLRB No. 9, 58 LRRM 1330.[28] The Board thereby committed patent error.

[28] The *Tawas Tube* case, unlike the case before the Court, was not an unfair labor practice proceeding; it involved, instead, a Board conducted decertification election. There, while the election was pending, the union expelled the decertification petitioner and another employee who had actively supported the decertification cause. A Board regional director set aside the election, which the union had won, on

Plainly, the Board's decision herein is incompatible with the singularly sound principle the Board itself articulated in *Skura* that "considering the overriding public interest involved . . . no private organization should be permitted to prevent or regulate access to the Board"; it is equally incompatible with the supporting voice of the District of Columbia Circuit in *Roberts, supra,* pages 11-12, that the "channels created by Congress for the administration of a public law and policy"—which the Court termed "the public domain"—cannot be allowed to be obstructed by union policy or action. In *Skura* and in *Roberts*, union disciplinary action was aimed at the Board procedural "channel" provided by the unfair labor practice charge. Here, Local 4028's disciplinary action was focused on the Board procedural "channels" provided by decertification and deauthorization peti-

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the ground that the union's conduct had inhibited employees from supporting the decertification cause, and had thereby prevented a free choice in the election. The Board, however, reversed the regional director, and upheld the validity of the election. Among the grounds set forth by the Board for its action was the view that "even a narrow reading of the proviso [to Section 8(b)(1)(A)] would necessarily allow a union to expel members who attack the very existence of a union as an institution" (58 LRRM at 1331).

Even if it is limited to the narrow representation issue that was involved, the Board's decision in *Tawas Tube* is questionable, to say the least. In any event, it cannot be a controlling precedent in this case, for *Tawas Tube* is factually distinguishable: (1) it involved a representation issue; (2) the *Tawas Tube* union did not impose a fine on the disciplined employees; and (3) the local in *Tawas Tube* represented no employees other than those involved in the proceeding before the Board (a factor which the Board viewed as relevant to the "existence matter"—58 LRRM at 1331), whereas there is no record showing here that Local 4028's status was so limited.

tions. The distinction, however, is meaningless. In either case, there exists a paramount public interest in protecting the administrative processes of the Board from attack and undermining. Surprisingly, the Board, in this instance, has ignored the admonishment it pronounced in *Skura*, and has, thereby, sanctioned the subversion of its own processes.

Nor is the Board's decision justifiable on the ground that Local 4028's disciplining of Price was a defensive move to preserve Local 4028's "existence." Clearly, there was nothing in the record before the Board to show that if Local 4028's decertification had been actually accomplished, its "existence" would have been placed in jeopardy.[29] But even if it were true that Local 4028's decertification would have been tantamount to extinction, that consideration cannot be deemed controlling. The Act is primarily concerned with employee rights and their protection; what rights labor organizations may have under the Act are subordinate to employee rights. Certainly, in the face of the explicit Section 7 employee right to refrain from collective activities, in the face of the explicit Section 9(c)(1)(A)(ii) and Section 9(e)(1) employee rights to decertify and deauthorize unions, the dubious interest of Local 4028 in perpetuating its life—nowhere stated to be a "right" under the Act —ought not to prevail. It is regrettable that the Board has apparently failed to comprehend the Act's basic scheme, and that it has seen fit to subordinate the rights of individual employees to labor union

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[29] As stated, *supra*, n. 28, there is no record indication that Local 4028's membership was limited to Pittsburgh-Des Moines employees, or that Local 4028 did not represent employees of employers other than Pittsburgh-Des Moines.

domination. The Board's substantial error in this respect merits correction.

Finally, it is apparent that the Board's decision is superficially conceived and reaches an incongruous result. Thus, under Section 8(a)(2) of the Act, it is an unfair labor practice for an employer "to . . . interfere with the formation or administration of any labor organization or contribute financial or other support to it . . ."; and the usual Board remedial provision for such a violation is an order directed to the employer to withdraw and withhold recognition from the assisted or supported union unless and until the union acquires a clean status as the result of a Board conducted election. See, for example, *ILGWU* v. *N.L.R.B. and Bernhard-Altmann*, 366 U.S. 731, 733, 740; *St. Louis Independent Packing Co.* v. *N.L.R.B.*, 291 F.2d 700, 701, 705 (C.A. 7). Moreover, the assisted or supported union in such a situation is itself guilty of violating Sections 8(b)(1)(A) and 8(b)(2) of the Act. *ILGWU* v. *N.L.R.B. and Bernhard-Altmann, supra; N.L.R.B.* v. *Downtown Bakery Corp.*, 330 F.2d 921, 928 (C.A. 6). Because the Board's *Skura* holding protects a union member against a retaliatory fine for filing an unfair labor practice charge against a union, presumably a union member who instigates an unlawful "assistance case" against a union would be so protected—even though such a case, as shown, could result in the ousting of the union as bargaining representative through a Board remedial order directing the employer to withdraw recognition from the union.[30] Yet, in the case

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[30] See *Meyer & Welch, Incorporated*, 96 NLRB 236, 242-244, 257, where the Board found that an employer violated Section 8(a)(4) of the Act by discriminating against an

before the Court, the decertification petition that Price filed was intended to achieve the identical result—that is, the ousting of the union as bargaining representative—and Price, said the Board, is not entitled to protection against retaliatory action. The Board's decision in this case is therefore logically inconsistent with the Board's *Skura* decision, and no plausible reason is apparent to justify the Board's inconsistency. Certainly, whether a union's loss of bargaining status is brought about through an unfair labor practice case, or through a decertification proceeding, should have no significance.

In short, the Board decision before the Court is not only contrary to controlling precedent and principle, it is also logically defective.

B. *The Board Erred in Finding that the Fine Imposed on Price Had No Operative Effect.*

Noting that the $500 fine imposed on Price was withdrawn by the Steelworkers' Executive Board, and stating that "Price was therefore never obligated to pay a fine," the Board found that there was no warrant for concluding that the initial levy of the fine "ever became an operative factor in this case" (R.27). Plainly, as a matter of practical discernment, and in view of the legal precedents, the Board's finding in this respect is erroneous.

Thus, the Board's statement of the matter ignores the obvious fact that the fine levied on Price was

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employee who had testified in a previous Section 8(a)(2) unfair labor practice hearing which had resulted in a "withdrawal of recognition" order directed against the union favored by the employer. *Accord: The American White Cross Laboratories, Inc.,* 66 NLRB 866, 872, 876-877.

withdrawn only *after* Price had filed with the Board a charge against Local 4028, and only *after* the Board's General Counsel had issued an unfair labor practice complaint against Local 4028. Thus, an inference is warranted that the withdrawal of the fine was not entirely a voluntary action. Similarly, the fine was imposed on Price initially on June 10, 1964 (R. 18); it was not withdrawn until November 23, 1964, or more than five months later (R. 18). To say, then, as the Board has done, that Price was "never obligated to pay a fine," is to misstate the record.

Nor is the Board on firmer ground when the record facts are measured against the controlling authorities. Thus, as the Board said in *Skura* (148 NLRB at 682), "There can be no doubt that a fine is by nature coercive . . ."; and the District of Columbia Circuit said in *Roberts* (350 F.2d at 428), "That a fine such as here imposed is restraint or coercion in the ordinary meaning of those terms is clear." *Accord: Allis-Chalmers Manufacturing Company* v. *N.L.R.B.*, 61 LRRM 2498, 2501 (C.A. 7).

That the fine imposed on Price was ultimately withdrawn is not a material consideration. The discontinuance of an unlawful labor practice is not decisive, not only because the illegal practice may be resumed, but also because Board orders have a preventive as well as a remedial purpose. *Sewell Manufacturing Co.*, 172 F.2d 459, 461 (C.A. 5); *N.L.R.B.* v. *Cleveland-Cliffs Iron Co.*, 133 F.2d 295, 300 (C.A. 6); *Flambeau Plastics Corporation*, 151 NLRB No. 70, 58 LRRM 1470, 1472; *Clark Printing Company, Inc.*, 146 NLRB 121, 123. Moreover, as the Third Circuit said in *Local 542, International Union of Op-*

erating Engineers, AFL-CIO, v. *N.L.R.B.*, 328 F.2d 850, 852-853, *cert. denied*, 379 U.S. 826, the test of intimidation and coercion within the meaning of Section 8(b)(1)(A) of the Act "is not whether the conduct proves effective. The test is whether the misconduct is such that, under the circumstances existing, it may reasonably tend to coerce or intimidate employees in the exercise of rights protected under the Act." *Accord: Progressive Mine Workers* v. *N.L.R.B.*, 187 F.2d 298, 301 (C.A. 7); *Ready Mixed Concrete Company*, 117 NLRB 1266, n. 1; *Local No. 1150, United Electrical, Radio and Machine Workers, etc.*, 84 NLRB 972, 975-976. See also, *N.L.R.B.* v. *Ford, et al.*, 170 F.2d 735, 738 (C.A. 6). Here, it is clear, the fine Local 4028 imposed on Price tended to coerce or intimidate employees of Pittsburgh-Des Moines, all of whom necessarily were union members.

In sum, contrary to the Board, the fine imposed on Price remained an "operative factor" in the case before the Court.

II. Section 101(a)(4) of the Labor-Management Reporting and Disclosure Act of 1959 Does Not Privilege the Punishing of Price by Local 4028.

Title I of the Labor-Management Reporting and Disclosure Act of 1959 embodies what Congress called the "Bill of Rights of Members of Labor Organizations." Enacted as an express federal safeguard of union members against the arbitrary exercise of power by their unions,[31] this Title prohibits unions from, among other things, disciplining mem-

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[31] See H. Rep. No. 741, 86th Cong., 1st Sess. 1-7, *I Legislative History of the Labor-Management Reporting and Disclosure Act of 1959*, pp. 759-765.

bers without "due process" procedural safeguards, increasing membership dues without prior democratic action, and denying members an opportunity to participate in the consideration of group policies. Section 101(a)(4) of that statute [29 U.S.C., Sec. 411 (a)(4)] may be relevant here, because Local 4028, which intervened in this case, asserted as a defense to the complaint against it that Price had failed to exhaust administrative remedies in the Steelworkers' Constitution before he filed with the Board the petitions that resulted in Local 4028's reprisals against him [32] (R. 11-12, 22). Section 101(a)(4) provides:

> PROTECTION OF THE RIGHT TO SUE—No labor organization shall limit the right of any member thereof to institute an action in any court, or in a proceeding before any administrative agency * * * or the right * * * to appear as a witness in any judicial administrative or legislative proceeding, or to petition any legislature or to communicate with any legislator: *Provided*, that any such member may be required to exhaust reasonable hearing procedures (but not to exceed a four-month lapse of time) within such organization, before instituting legal or administrative proceedings * * *.

Whatever the Steelworkers' Constitutional provisions with respect to the exhaustion of administrative remedies might be, the language of the proviso to Sec-

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[32] Section 7 of Article XIII of the Steelworkers' Constitution states (R. 19):

> It shall be the duty of a member to exhaust all his internal remedies and appeals provided under the Constitution and policies of the International Union and the Local Union By-Laws.

tion 101(a)(4) cannot validly be asserted as a defense to Local 4028's disciplining of Price.

Price's purpose in invoking the Board's processes was, as the record shows, to get rid of Local 4028 as the bargaining representative of the Pittsburgh-Des Moines employees.[33] Plainly, therefore, in view of Price's goal, no possible "administrative remedy" in the Steelworkers' Constitution could accomplish that result for Price; and significantly, no such constitutional provision was cited by Local 4028 in the record herein. In short, Price, as a matter of common sense, could neither be expected, nor required, to exhaust nonexistent union remedies before exercising his statutory *rights* to petition the Board to accomplish a legitimate end—an end which only the Board, and certainly not Local 4028, could provide. See *Calagaz* v. *Calhoon*, 309 F.2d 248, 259-260.

Moreover, even if it is assumed—contrary to the fact—that there existed some internal union procedures which could have satisfied the purpose for which Price filed his petitions with the Board, any

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[33] Arguments pertaining to the failure to exhaust administrative remedies were also made in the *Skura* and *Roberts* cases, *supra*, pp. 9, 11. As set forth, *infra*, such arguments were rejected by the Board and the District of Columbia Circuit. Moreover, the arguments were more plausibly advanced in the *Skura* and *Roberts* cases than is possible here, because there the unions had disciplined members who had invoked the Board's processes to complain of alleged union discrimination involving their job status and job opportunities. In contrast to the relief that Price was seeking from the Board—union decertification—union internal machinery might, conceivably, provide remedies for members who complain that their unions are discriminatorily denying them employment rights.

reliance that Local 4028 might make on the proviso to Section 101(a)(4) would be misplaced. Thus, in the *Skura* case, *supra*, at page 9, the Board passed upon the argument of the union there involved that its coercive conduct was privileged by the Section 101(a)(4) proviso and Skura's failure to exhaust internal union remedies. The Board ruled that Section 101(a)(4) "established a Federal policy consistent with the views of recognized scholars in the field that union rules which would deny access to the courts are contrary to public policy and void." Similarly, in the *Roberts* case, *supra*, at page 11, the District of Columbia Circuit, expressing the view that the proviso to Section 101(a)(4) might require the exercise of "restraint" for a period of time by agency or court when relief was sought by a union member against a union, said further with respect to the section (350 F.2d at 430):

> This statute, speaking roughly, parallels rather than meshes into the pre-existing Acts insofar at least as the latter proscribe unfair labor practices of either employers or labor organizations. Thus considered it would seem that Section 101 (a)(4) has little bearing one way or the other upon the right of the Board by its traditional methods to preclude coercion upon one seeking its protection, inculding protection against labor organizations after enactment of the Taft-Hartley Amendments in 1947.

The views of the Board, in *Skura*, and the Court, in *Roberts*, with respect to Section 101(a)(4) are sound. The fundamental purpose of this section is to protect union members from retaliation for bringing suit, as its title—"Protection of the Right to Sue"—and its opening phrase—"No labor organization shall

limit the right of any member"—demonstrate. It would be anomalous, therefore, to construe the section to contain a grant of power to unions whereby litigating members might be punished.

Moreover, courts other than the District of Columbia Circuit support the view that the proviso to Section 101(a)(4) simply means that a union member who seeks to institute judicial or administrative remedies "may be required *by that court or agency* to exhaust internal remedies of less than four months' duration before invoking outside assistance." *Detroy* v. *American Guild of Variety Artists*, 286 F.2d 75, 78 (C.A. 2), *cert. denied*, 366 U.S. 929 (emphasis by court). See also, *Harris* v. *ILA, Local 1291*, 321 F.2d 801, 805 (C.A. 3); *Burris* v. *Int'l Brotherhood of Teamsters*, 224 F.Supp. 277, 280 (W.D. N. Car.); *Baron* v. *North Jersey Newspaper Guild, Local 173*, 224 F.Supp. 85, 86 (D.C.N.J.); *Deluhery* v. *Marine Cooks & Stewards*, 211 F.Supp. 529, 535; 199 F.Supp. 270, 273-275 (D.C.S.D. Calif.); *Sheridan* v. *United Brotherhood of Carpenters, etc., Local 626*, 191 F.Supp. 347, 353, 355 (D.C. Del.).

Commentators agree.[34] Thus, Professor Cox explains that there are—

> two radically different kinds of limitations upon a union member's freedom to sue the organization.
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> One limitation is the familiar provision in union constitutions which declares that bringing suit against the union is cause for expulsion unless

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[34] Cox, *Internal Affairs of Labor Unions Under the Labor Reform Act of 1959*, 58 Mich. L. Rev. 819, 839 (1960); Aaron, *The Labor-Management Reporting and Disclosure Act of 1959*, 73 Harv. L. Rev. 851, 869-872 (1960).

> the member has exhausted his internal remedies. This restriction is against public policy.
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> *   *   *   *
>
> A quite different kind of limitation is imposed by the judicial doctrine that a court will not entertain a member's action against a labor organization until he has exhausted all adequate remedies within the organization. The rule is one of judicial administration.

Professor Cox concludes that there is some uncertainty about the nature of Section 101(a)(4)'s impact upon the "rule of judicial administration"; but he finds it "clear" that union-imposed restrictions are outlawed. (Cox, *op. cit. supra*, n. 34).

Finally, there is another reason why Local 4028 may not validly rest its defense upon Section 101(a)(4). Section 103 of the "Bill of Rights" provides: "Nothing contained in this title shall limit the rights and remedies of any member of a labor organization under any State or Federal law or before any court or other tribunal * * *." Hence, at the same time Congress gave aggrieved members a right of action in district courts for infringement of rights specified in the "Bill," it expressly preserved for them all prior remedies;[35] and "remedies" provided in the Act administered by the Board must necessarily come within this express legislative judgment.

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[35] See also, Sec. 603(a), Title VI, preserving "any right or * * * remedy to which members of a labor organization are entitled under * * * other Federal law or law of any State."

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the Board's erroneous construction of Section 8(b)(1)(A) of the Act should be rejected by this Court, that the Board's order dismissing the complaint against Local 4028 should be reversed, and that the case should be remanded to the Board for issuance of an appropriate remedial order.

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Attorney for Richard C. Price

Dated: May 23, 1966

Certificate

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that, in my opinion, the foregoing brief is in full compliance with those rules.

John R. Carroll
Attorney for Richard C. Price

APPENDIX

The relevant provisions of the National Labor Relations Act, as amended (61 Stat. 136, 73 Stat. 519, 29 U.S.C., Sec. 151, *et seq.*), are as follows:

Rights of Employees

Sec. 7. Employees shall have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection, and shall also have the right to refrain from any or all of such activities except to the extent that such right may be affected by an agreement requiring membership in a labor organization as a condition of employment as authorized in section 8(a)(3).

Unfair Labor Practices

Sec. 8. (a) It shall be an unfair labor practice for an employer—

(1) to interfere with, restrain, or coerce employees in the exercise of the rights guaranteed in section 7;

(2) to dominate or interfere with the formation or administration of any labor organization or contribute financial or other support to it . . . ;

(3) by discrimination in regard to hire or tenure of employment or any term or condition of employment to encourage or discourage mem-

bership in any labor organization: *Provided*, That nothing in this Act, or in any other statute of the United States, shall preclude an employer from making an agreement with a labor organization (not established, maintained, or assisted by any action defined in section 8(a) of this Act as an unfair labor practice) to require as a condition of employment membership therein on or after the thirtieth day following the beginning of such employment or the effective date of such agreement, whichever is the later, . . . unless following an election held as provided in section 9 (e) within one year preceding the effective date of such agreement, the Board shall have certified that at least a majority of the employees eligible to vote in such election have voted to rescind the authority of such labor organization to make such an agreement. . . .

(4) to discharge or otherwise discriminate against an employee because he has filed charges or given testimony under this Act;

* * * *

Sec. 8. (b) It shall be an unfair labor practice for a labor organization or its agents—

(1) to restrain or coerce (A) employees in in exercise of the rights guaranteed in section 7: *Provided*, That this paragraph shall not impair the right of a labor organization to prescribe its own rules with respect to the acquisition or retention of membership therein . . . .

(2) to cause or attempt to cause an employer to discriminate against an employee in violation of subsection (a)(3) or to discriminate against

an employee with respect to whom membership in such organization has been denied or terminated on some ground other than his failure to tender the periodic dues and the initiation fees uniformly required as a condition of acquiring or retaining membership;

* * * *

Representatives and Elections

Sec. 9. (a) Representatives designated or selected for the purposes of collective bargaining by the majority of the employees in a unit appropriate for such purposes, shall be the exclusive representatives of all the employees in such unit for the purposes of collective bargaining in respect to rates of pay, wages, hours of employment, or other conditions of employment . . . .

* * * *

Sec. 9 (c)(1) Wherever a petition shall have been filed, in accordance with such regulations as may be prescribed by the Board—

(A) by an employee or group of employees or any individual or labor organization acting in their behalf alleging that a substantial number of employees . . . (ii) assert that the individual or labor organization, which has been certified or is being currently recognized by their employer as the bargaining representative, is no longer a representative as defined in section 9(a) . . . . the Board shall investigate such petition and if it has reasonable cause to believe that a question of representation affecting commerce exists shall provide for an appropriate hearing upon due notice. Such hearing may be conducted

by an officer or employee of the regional office, who shall not make any recommendations with respect thereto. If the Board finds upon the record of such hearing that such a question of representation exists, it shall direct an election by secret ballot and shall certify the results thereof.

* * * *

Sec. 9. (e) (1) Upon the filing with the Board, by 30 per centum or more of the employees in a bargaining unit covered by an agreement between their employer and a labor organization made pursuant to section 8(a)(3), of a petition alleging they desire that such authority be rescinded, the Board shall take a secret ballot of the employees in such unit and certify the results thereof to such labor organization and to the employer.

* * * *

No. 20,653

In the United States Court of Appeals for the Ninth Circuit

RICHARD C. PRICE, PETITIONER

v.

NATIONAL LABOR RELATIONS BOARD, RESPONDENT

On Petition to Review an Order of the National Labor Relations Board

BRIEF FOR THE NATIONAL LABOR RELATIONS BOARD

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BRIEF FOR THE NATIONAL LABOR RELATIONS BOARD

JURISDICTION

This case is before the Court on the petition of Richard C. Price (hereafter the "petitioner") to review an order of the National Labor Relations Board (R. 22-27)[1] dated August 25, 1965, dismissing an unfair labor practice complaint which had issued upon charges filed by petitioner. The Board's decision is

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[1] References to the pleadings, decision and order of the Board, and other papers reproduced as "Volume I, Pleadings," are designated "R."

reported at 154 NLRB No. 54. This Court has jurisdiction of the proceeding under Section 10(f) of the National Labor Relations Act, as amended (61 Stat. 136, 73 Stat. 519, 29 U.S.C. Sec. 151, *et seq.*), the alleged unfair labor practice having occurred in Santa Clara, California.

COUNTERSTATEMENT OF THE CASE

Briefly, the Board found that the Union[2] did not violate Section 8(b)(1)(A) of the Act when it suspended petitioner from membership because he had filed a petition with the Regional Director of the Board seeking to decertify the Union as the bargaining representative of the employees of the Company.[3] The facts upon which the Board's finding rests are contained in a stipulation, which was entered into in lieu of a hearing before, and decision of, a Trial Examiner. They may be summarized as follows:

The Company and the Union have been parties to several collective bargaining agreements covering the employees at the plant in Santa Clara, California (R. 15). One such contract, containing a lawful union-security clause, was in effect from September 1, 1962, to September 1, 1964 (R. 15-16). Petitioner, Richard Price, has been an employee of the Company since 1951 and a dues-paying member of the Union from 1951 until June 10, 1964. At all times relevant herein, Price was subject to the union-security provi-

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[2] United Steelworkers of America, Local No. 4028, AFL-CIO.

[3] Pittsburgh-Des Moines Steel Company.

sion of the 1962 contract between the Company and the Union (R. 17).

On April 15, 1964, Price filed a petition with the Regional Director of the Board seeking an election to withdraw from the Union the authority to enter into a union shop agreement (R. 3, 16). Thereafter, as Price had intended to file a decertification petition, he sought, and obtained, approval from the Regional Director to withdraw the union shop petition. On June 3, 1964, Price filed another petition with the Regional Director, this time seeking to decertify the Union as the bargaining representative of the employees of the Company (R. 4, 5, 16).

On May 13, 1964, three other employees of the Company, who were also members of the Union, filed charges with the Union alleging that Price, by filing the petition with the Board, had violated Article XII, Section 1(d), of the Steelworkers' International Constitution.[4] Price appeared before the Union's Trial Committee on June 1, 1964, and was found guilty of violating the Steelworkers' Constitution as charged (R. 17). The Trial Committee recommended to the general membership of the Union that Price be (1)

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[4] Article XII, Section 1(d), of the Constitution provides (R. 17):

> Any member may be penalized for committing any one or more of the following offenses: . . .
>
> (d) advocating or attempting to bring about the withdrawal from the International Union of any Local Union or any member or group of members; . . .

Article XII, Section 2, of the Constitution provides:

> Any member convicted of any of one or more of the above offenses may be fined, suspended, or expelled.

suspended from membership and precluded from attending meetings for five years; (2) fined $500 plus costs of the hearing; and (3) suspended from membership completely pending payment of the fine (R. 17-18). On June 10, 1964, the findings and recommendations of the Trial Committee were approved and accepted by the membership of the Union (R. 18). Upon Price's appeal to the Steelworkers' International Executive Board, the fine was withdrawn but the suspension from membership was left in full force and effect (R. 18). Although, under the Steelworkers' Constitution, Price was permitted to appeal the decision of the Executive Board to the regular International Convention, no further action was taken by him (R. 18).

However, Price filed charges with the Board, alleging that the Union, by fining and suspending him, had violated Section 8(b)(1)(A) of the Act. The Board found that the Union did not violate Section 8(b)(1)(A) by suspending Price for filing a petition seeking the decertification of the Union as the bargaining representative of the employees, and dismissed the complaint. (R. 22, 26-27.)

ARGUMENT

The Board Properly Held That Section 8(b)(1)(A) Was Not Intended To Prohibit A Union From Suspending One Of Its Members For Filing A Petition Seeking To Decertify The Union As The Representative Of The Employees

A. *Introduction*

Section 8(b)(1)(A) of the Act, enacted by Congress as part of the 1947 Taft-Hartley amendments,

provides that it shall be an unfair labor practice for a union:

> to restrain or coerce employees in the exercise of the rights guaranteed in Section 7: *Provided*, That this paragraph shall not impair the right of a labor organization to prescribe its own rules with respect to the acquisition or retention of membership therein; . . .

The Section 7 rights referred to are "the right to self-organization to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection." Moreover, Section 7 guarantees "the right to refrain from any or all such activities except to the extent that such right may be affected by an agreement requiring membership in a labor organization as a condition of employment as authorized in Section 8(a)(3)."

This case involves the authority of a union to suspend one of its members for filing a decertification petition against the Union.[5] Setting this question

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[5] As shown above, although the Union also imposed a fine on Price for filing his decertification petition, this fine was later withdrawn by the International Executive Board following an appeal by Price. (R. 25). The Board therefore found that there was no obligation on Price to pay such a fine and for this reason the initial levy of the fine was not considered on "operative factor" in the Board's decision (R. 27). Petitioner now contends that this finding of the Board is "erroneous" since the mere levying of the fine was coercive, notwithstanding the ultimate withdrawal of the fine (Pet. br. pp. 25-27).

The Board's finding on the fine is clearly correct. Price

within the framework of Section 8(b)(1)(A) of the Act, the issue is whether such action by the Union here constitutes the type of "restraint and coercion" intended to be proscribed by that section. For, as the Supreme Court recognized in *N.L.R.B.* v. *Drivers, Chauffeurs, Helpers, Local Union No. 639 (Curtis Bros.)*, 362 U.S. 274, Section 8(b)(1)(A) does not encompass all union action which in a literal sense tends to restrain or coerce employees in the exercise of their Section 7 rights.[6]

As we show below, Section 8(b)(1)(A) was essentially aimed at strong-arm tactics in union organizing campaigns and at interferences with employment status. It was not intended to preclude a union, by such traditional sanctions as fines, suspension or expulsion, from disciplining its members for violating reasonable union rules necessary to the

---

was not finally obligated to pay the fine until he had exhausted the appeal procedures available to him under the Union's Constitution. Once the Executive Board upheld his appeal, this element of the case became irrelevant. In any event, the Board's holding in the instant case assumes that there is some coercion and restraint involved when a union suspends one of its members; the question is whether this action, be it suspension or fine, is the sort of coercion and restraint that is prohibited by Section 8(b)(1)(A) of the Act. See, *Local 283, UAW* (*Wisconsin Motors*), 145 NLRB 1097, 1101-1102; *Cannery Workers Union of the Pacific* (*Van Camp Sea Food Co., Inc.*), 159 NLRB No. 47. Thus, the Board could properly find that the initial fine imposed on petitioner need not be considered here.

[6] In *Curtis*, the Court held that Section 8(b)(1)(A) did not reach peaceful picketing by a minority union to secure recognition.

existence of the union as an entity. We further show that the action taken here fell in this category.[7]

B. *The legislative history of the 1947 amendments shows that Congress did not intend to regulate traditional union power to discipline its members for a violation of reasonable union rules*

1. *The situation prior to 1947*

Prior to 1947, "there was no federal statute which specifically regulated, in even a slight degree, the internal affairs of labor unions."[8] Under what circumstances, and by what procedures, a union might

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[7] A simlar issue was before, but not resolved by, this Court in *Associated Home Builders* v. *N.L.R.B.*, 352 F. 2d 745 (C.A. 9). In that case, the Board had found that the Union did not violate Section 8(b)(1)(A) by fining its members for exceeding production quotas established by the Union. 145 NLRB 1775. This Court, noting that the problem was a difficult one, found it "unnecessary" to decide whether Section 8(a)(1)(A) barred a fine levied for that purpose (352 F. 2d at 750). Instead, it concluded that, since the Union's action appeared to constitute a unilateral change in working conditions, the relevant question was whether the Union had violated its bargaining obligation under Section 8(b)(3) of the Act, and, accordingly, remanded the case to the Board for a determination of that question.

In *Allis-Chalmers Mfg. Co.* v. *N.L.R.B.*, 358 F. 2d 656, the Seventh Circuit, sitting *en banc* and with three judges dissenting, held, contrary to the Board, that Section 8(b)(1)(A) barred a union from fining those of its members who crossed a picket line during a lawful strike authorized by a majority of the union members. The Board has petitioned the Supreme Court for certiorari to review this decision, No. 1398, October Term, 1965.

[8] Aaron and Komaroff, *Statutory Regulation of International Union Affairs*, 44 Ill. L. Rev. 425, 427 (1949); *I.A.M.* v. *Gonzales*, 356 U.S. 617, 620.

> they desire, but that they may not rely upon action taken pursuant to those provisions in effecting the discharge of, or other job discrimination against, an employee. . . . [Senate Report No. 105 on S. 1126, pp. 20-21, LH 426-427.]

Similarly, when the above amendments were debated on the floor, Senator Pepper protested that they would deprive a union of power to protect itself against company spies in its ranks, wildcat strikers, and those who opposed what the majority of the union felt was in the union's best interest (LH 1094, 93 Cong. Rec. 4191). Senator Taft replied (LH 1097, 93 Cong., Rec. 4193):

> The pending measure does not propose any limitation with respect to the internal affairs of unions. They still will be able to fire any members they wish to fire, and they still will be able to try any of their members. All that they will not be able to do, after the enactment of this bill is this: If they fire a member for some reason other than nonpayment of dues, they cannot throw him out of work. That is the only result of the provision under discussion.

(b) Section 8(b)(1)(A), which the Senate considered immediately after the Pepper-Taft colloquy, was not intended to erase the deliberate line between enforcing reasonable union rules by affecting the employee's job and by means short thereof, which Congress drew in amending Section 8(a)(3) and adding Section 8(b)(2).

Thus, when Senator Ball introduced Section 8(b)(1)(A) in the Senate, he stated (LH 1018, 93 Cong. Rec. 4136):

> The purpose of the amendment is simply to provide that where unions, in their organizational campaigns, indulge in practices which, if an employer indulged in them, would be unfair labor practices, such as making threats or false promises or false statements, the unions also shall be guilty of unfair labor practices.

Similarly, Senator Taft, who supported the amendment, stated (LH 1025, 93 Cong. Rec. 4142):

> The language [of Section 8(b)(1)(A)] is clear . . . . An employer cannot go to an employee and say, "If you join this union you will be discharged." He cannot go to an employee and threaten physical violence. He cannot employ police to accomplish that purpose. Now it is proposed that the union be bound in the same way. What could be more reasonable than that? Why should a union be able to go to an employee and threaten violence if he does not join the union? Why should a union be able to say to an employee, "If you do not join this Union we will see that you cannot work in the plant"? What possible distinction can there be between an unfair labor practice of that kind on the part of an employer and a similar practice on the part of a union? We know that such things have actually occurred. We know that men have been threatened. There have been many cases in which unions have threatened men or their wives. They have called on them on the telephone and insisted that they sign bargaining cards. They have said to them "Sooner or later we are going to organize this plant with a closed shop, and you will be out." It seems to me perfectly clear that that is a reprehensible practice, and one which

> is just as reprehensible and just as limiting on the rights of the employees guaranateed by the Wagner Act as would be an unfair labor practice on the part of employers.

See also LH 1205-1206, 93 Cong. Rec. 4562.

As the Supreme Court pointed out in the *Curtis* case, *supra*, the examples given in the debates show that Section 8(b)(1)(A) was designed essentially to prevent strong-arm tactics and threats of job loss in organizational campaigns. None of the active proponents of the measure suggested that it would limit the preexisting right of a union to discipline its members—by such traditional means as fines, suspension, or expulsion—for violating reasonable union rules or policies. Indeed, when Senator Holland introduced a proviso to Section 8(b)(1)(A), to make clear that the section did not affect the area of internal union affairs (LH 1139, 93 Cong. Rec. 4398),[11] Senator Ball readily accepted it. He stated (LH 1141, 93 Cong. Rec. 4400): "It was never the intention of the sponsors of the amendment to interfere with the internal affairs or organization of unions. The amendment of the Senator from Florida [Holland] makes that perfectly clear." and later, Senator Ball added (LH 1200, 93 Cong. Rec. 4433): "The modifications [the proviso] is designed to make it clear that we are not trying to interfere with the in-

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[11] The proviso reads:

> *Provided,* That this subsection shall not impair the right of a labor organization to prescribe its own rules with respect to the acquisition or retention of membership therein.

ternal affairs of a union which is already organized. All we are trying to cover is the coercive and restraining acts of the union in its effort to organize unorganized employees."

C. *The 1959 amendments confirm the above analysis*

The Labor-Management Reporting and Disclosure Act, enacted in 1959, confirms the above analysis. Although that statute does regulate internal union affairs and provides a "bill of rights" for union members, Congress recognized (Section 101(a)(5), 29 U.S.C. 411(a)(5)) that a union member "may be fined, suspended, expelled, or otherwise disciplined" provided certain procedural safeguards were observed. Moreover, Congress added a proviso (Section 101(a)(2), 29 U.S.C. 411(a)(2)) disclaiming any intent ". . . to impair the right of a labor organization to adopt and enforce reasonable rules as to the responsibility of every member toward the organization as an institution. . . ." It is hardly likely that Congress would have adopted these provisions, allowing the enforcement of reasonable union rules by such sanctions as fines, suspension, or expulsion, had it 12 years earlier flatly interdicted such measures under Section 8(b)(1)(A).

D. *The union discipline here did not fall outside the area of internal union affairs*

Petitioner was suspended from union membership for violating the provision of the Steelworkers' Constitution which barred any member from "advocating or attempting to bring about the with-

drawal from the International Union of any Local Union or any member or group of members." Such a rule is plainly necessary to preserve the very existence of the union, for no union could long endure if it permitted one or more of its members, with impunity, to undermine it by promoting defection from the union. As an individual, the member, of course, has the right to engage in such conduct and the union could not get him fired from his job for doing so, but it does not follow that the union is required to keep him as a member or is prevented from invoking other forms of discipline. By filing a petition with the Board to decertify the Union as the bargaining representative of the employees, petitioner encouraged defection from the Union and jeopardized its status, no less than if he had solicited the employees directly to withdraw from the Union. The Union thus properly found that petitioner had violated the above provision of its constitution, and therefore it could, without violating Section 8(b)(1)(A), discipline him by the traditional sanction which it used, i.e., suspension from membership. As the Board stated in *Tawas Tube Products, Inc.*, 151 NLRB 46, 47-48, in holding that the union could properly expel two employees for similar action in filing a decertification petition:

> . . . the ground for the expulsions plainly related to a matter of legitimate Union concern and one which may properly be a subject matter of internal discipline. In this connection, even a narrow reading of the proviso would necessarily allow a union to expel members who attack the

> very existence of the union as an institution. . . . As we said in the *Allis-Chalmers* case [149 NLRB 67], when a situation "involves the loyalty of its members during a time of crisis for the union . . . we cannot hold that a union must take no steps to preserve its own integrity." That language is even more applicable here, for we can conceive of no conduct by a union member more hostile or threatening to his union than that engaged in by Lohr and Lee. . . .[12]

Petitioner concedes (br. p. 16) that the legislative history of Section 8(b)(1)(A) "affords some basis" for the Board's conclusion that that section does not reach the area of internal union affairs.[13] Petitioner

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[12] It is true, as petitioner points out (br. pp. 20-21, n. 28), that *Tawas Tube* was a representation case and not an unfair labor practice decision, but the Board's rationale and its interpretation of Section 8(b)(1)(A) in that case are clearly applicable to the instant case. The Board itself so recognized by relying on *Tawas Tube* in its decision here.

[13] Petitioner errs in asserting (br. p. 10, n. 8), that this Court has been critical of the Board's construction of Section 8(b)(1)(A). As shown in n. 7, *supra*, in *Associated Home Builders of East Bay, Inc.* v. *N.L.R.B.*, 352 F. 2d 745 (C.A. 9), the Court remanded the case to the Board to determine whether the union's setting of production quotas was violative of Section 8(b)(3). In so ruling, the Court specifically declined to pass on the Board's construction of Section 8(b)(1)(A). *Id.*, at 750. After a brief discussion of the legislative history of Section 8(b)(1)(A), the Court noted only that "the answer is by no means clear," that it had "been unable to find any authoritative decisions which will furnish us answers," and that "[f]ortunately we find it unnecessary to solve these problems" raised by Section 8(b)(1)(A). *Id.*, at 750-751, n. 9. The only adverse decision to date is that of the Seventh Circuit in the *Allis-Chalmers* case, and, as noted above, the Board has filed a petition for a writ of certiorari to review that decision.

urges, however, that more is involved in this case than merely an internal matter and that the Board's decision herein is contrary to its decisions in *Local 138, Operating Engineers (Charles S. Skura)*, 148 NLRB 679, and *H.B. Roberts (Wellman-Lord Engineering, Inc)*, 148 NLRB 674, enforcement granted *sub nom. Roberts* v. *N.L.R.B.*, 350 F. 2d 427 (C.A. D.C.). The Board properly distinguished these cases.

In both *Skura* and *Roberts*, the union fined a member for filing unfair labor practice charges against the union without first exhausting internal union procedures. The gravamen of the charges was that the union was attempting to cause job discrimination against the member, in violation of Section 8(b)(2) and (1)(A) of the Act. The Board found that, in these circumstances, the fine violated Section 8(b)(1)(A). The Board concluded that a union rule which limited access to the Board's procedures by employees alleging union infringement of their statutory rights was unreasonable and exceeded the province of legitimate internal union affiairs. Accordingly, the restraint and coercion flowing from a fine to enforce such a rule was not privileged as a mere regulation of those affairs. The exception thus recognized by the Board is a limited one; as the District of Columbia Circuit stated in affirming the Board's *Roberts* decision (350 F. 2d at 430):

> We limit our approval of the Board's construction of its powers to the case before us, where the fine was not imposed because of the member's harassing conduct as a member, but, as the case is presented to us, simply because he filed the

charges or did so without pursuing possible internal remedies.

The instant case presents a different situation. By filing his decertification petition, Price resorted to the Board solely for the purpose of attacking the very existence of the Union itself, and not, as in *Skura* and *Roberts*, to vindicate a statutory wrong.[14] And the Union, in disciplining Price, was not seeking to block him from obtaining redress for an alleged statutory wrong, but was merely attempting to preserve its own status, which was a lawful one. In short, the Union here had not committed a statutory wrong.[15] but was mere-

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[14] See *Wood, Wire and Metal Lathers Union* (*Phillip A. Contreras, Jr.*), 156 NLRB No. 93, 61 LRRM 1172, a case identical with *Skura* and *Roberts*. See also *Houston Typographical Union No. 87* (*Don P. Bosworth*), 158 NLRB No. 104, 62 LRRM 1174, where a union member filed charges against his union alleging an attempt to cause the employer to discharge him, and later withdrew the charges when the union ceased its attempts to have him fired. The union then moved to assess the member $100 to pay for the legal expenses it had incurred while the charges were outstanding against it. The Board held that this "assessment" for legal costs was the equivalent of a fine for filing charges, and violative of Section 8(b) (1) (A) under *Skura*. Cf. *Ryan, et al.* v. *I.B.E.W.*, —— F. 2d —— (C.A. 7), decided June 10, 1966, 62 LRRM 2339. See also, *Cannery Workers Union of the Pacific* (*Van Camp Sea Food Co., Inc.*), 159 NLRB No. 47.

[15] There is thus a real difference between this case and the hypothetical posited by petitioner (br. pp. 23-24) where an employee-union member files a Section 8(a) (2) charge against his employer and is disciplined by the union for doing so. For in that case, the gravamen of the charge is that the union is not the lawful representative of the employees but has been foisted on the employees by reason of employer assistance or support. Although the end result of an 8(a) (2) charge might be the same as with the filing of a decertifica-

ly performing, in a lawful way, the precise function which it was established for, i.e., representing employees for collective bargaining. By filing a decertification petition, petitioner was not seeking to redress a wrong committed by the Union, but was attempting, by unseating the Union as the representative, to prevent it from continuing to fulfill its very purpose for existing. Hence, here, no less than if petitioner had engaged in rival union activity or had openly solicited defections from the Union, the Union should not be powerless to defend its integrity. The Board could thus properly conclude that, in the circumstances here, it was not "beyond the competence of the Union to protect itself . . . by the application of reasonable membership rules and discipline." *Tawas Tube Products, Inc., supra.*

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tion petition—the union would have to win a Board-convicted election in order to continue as bargaining representative—the underlying purpose of the 8(a)(2) charge, unlike the case at bar, is to vindicate a statutory wrong allegedly committed by the employer. As noted above, there is no suggestion that the Union's status here was unlawful.

CONCLUSION

For the reasons stated above, we respectfully submit that the Board's decision dismissing the unfair labor practice complaint should be sustained and the prayers of the petition for review should be denied.

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June 1966.

CERTIFICATE

The undersigned certifies that he has examined the provisions of Rules 18 and 19 of the Court and in his opinion the tendered brief conforms to all requirements.

MARCEL MALLET-PREVOST
Assistant General Counsel

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No. 20653

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REPLY BRIEF

For Richard C. Price

In the brief previously filed with the Court, Petitioner showed, among other things, that: (1) the Act grants to employees a right to refrain from engaging in concerted activities for the purposes of collective bargaining, which right is specifically implemented by another statutory right—the right to petition for the decertification of a union having the status of a bargaining representative; and (2) the

public interest in protecting the Board's processes is necessarily paramount to whatever immunity the Act grants to unions in the regulation of their internal affairs. In their briefs in support of the Board's decision, both the Board and the intervening Steelworkers have ignored completely the "rights" thus conferred upon employees by the Act. Both the Board and the Steelworkers, moreover, have rested the main thrust of their arguments on assertions that Local 4028's action against Price was privileged as a measure relating solely to "internal union affairs." In the circumstances and context of this case, however, such assertions necessarily distort the common understanding of what is, or might be, "internal" to a private membership association; indeed, by magnifying their distortion into a union privilege superior to the rights given employees under the Act, the assertions also attribute to the notion of "internal union affairs" a meaning far beyond that which Congress intended when it enacted Section 8(b)(1)(A) of the Act.

It is clear that Local 4028 was not regulating a matter "internal" to itself; on the contrary, it was regulating a member-employee who had invoked the Board's procedures, and, therefore, in a very real sense, Local 4028 was regulating the processes of the federal government itself. As the Court said in *Roberts* v. *N.L.R.B.*, 350 F.2d 427, 429 (C.A.D.C.), with respect to the Board's inhibition of union retaliation for filing a Board charge: "This is not . . . an inroad upon those internal union affairs left by the Act and its policy to be administered solely by the Union."

In the final analysis, this case boils down to a simple question: may an employee exercise his statutory

right to file a decertification petition without having that right nullified by union punitive action against him? For it is perfectly clear that this case concerns, fundamentally, Price's statutory rights as an employee, as well as the Board's obligation in the public interest to protect those rights. Thus viewed, it is equally clear that Price's standing as a union member and Local 4028's interest in maintaining its position as a bargaining representative,[1] are subordinate, if not completely irrelevant, considerations.

In view of the Board's holding in *Local 138, Operating Engineers (Charles S. Skura)*, 148 NLRB 679,[2]

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[1] In partial answer to the Board's position (see, also, Bd. Br. p. 16) that Local 4028's punitive action against Price was justified in order "to preserve the very existence of the union," Petitioner has pointed out that there is nothing in the record to show that Local 4028's membership was limited to Pittsburgh-Des Moines employees, or that Local 4028 did not represent employees of employers other than Pittsburgh-Des Moines (Pet. Br. p. 22, n. 29). In view of the record's silence, the assertion in the Steelworkers' brief that "Local 4028 serves only this one plant and its only members are the employees at this plant" (St. Br. p. 1), necessarily is nothing more than counsel's gratuitous comment.

Nor is there any record basis whatever for the unwarranted statement in the Steelworkers' brief (St. Br. n. 2, pp. 2-3) that the rescission of Price's fine "was intended and was understood" as "erasing" the costs-of-hearing penalty imposed on Price.

[2] Since Petitioner's brief was filed, the Board has twice reaffirmed its *Skura* holding: *Houston Typographical Union No. 87 (Don P. Bosworth)*, 158 NLRB No. 104, 62 LRRM 1174 (fine or assessment imposed by union on employee to meet legal costs in defending against NLRB unfair labor practice charges held to violate Section 8(b)(1)(A)); *Cannery Workers Union of the Pacific (Van Camp Sea Food*

which holding was expressly approved in *Roberts* v. *N.L.R.B.*, *supra*, the Board's failure in this case to protect its own processes against Local 4028's subversion is incomprehensible. For, as the Seventh Circuit has noted, the Board's *Skura* ruling "was based on the principle that a union rule which seeks to frustrate the right of members to avail themselves of the services of the Board is contrary to recognized public policies and beyond the competence of a union to enforce by coercive means." *Allis-Chalmers Mfg. Co.* v. *N.L.R.B.*, 60 LRRM 2097, 2101. The best that the Board has been able to do is to attempt to distinguish the *Skura* and *Roberts* cases on the asserted ground that the latter cases involved the invocation of the Board's processes to remedy "union infringement of [employee] statutory rights" to be free of job discrimination (Bd. Br. pp. 18-21). But this purported distinction is, of course, utterly specious. Not only does the Board thereby differentiate between the various rights given employees under the Act, but it is seemingly propounding the view that its obligation is to protect, in the public interest, only those employee rights with which its own predilections and sympathies coincide. However, just as the employees in *Skura* and *Roberts* were entitled to invoke the Board's processes pursuant to their substantive right to be free of union-caused job discrimination, so, here, Price was entitled to invoke the Board's processes pursuant to his procedural right to file a petition intended to accomplish Local 4028's decertification. Moreover, Price's procedural right so to petition

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Co., Inc.), 159 NLRB No. 47, 62 LRRM 1298 (*expulsion* from union for filing NLRB unfair labor practice charges held to violate the same section).

necessarily involved the implementation of his substantive Section 7 right "to refrain" from engaging in self-organization or other concerted activities.

Nor may *Skura* and *Roberts* be distinguished, as the Board's brief also suggests (Bd. Br. pp. 19-20), on the ground that the union there involved had originally been charged with "an alleged statutory wrong," whereas there is here no suggestion that Local 4028's underlying status was unlawful. For this, too, misses the point that the gravamen of the *Skura* violation was not the fact that the union involved may have in the first instance transgressed the Act, but rather that a violation occurred when the union punished a member who had sought to bring such alleged violation to the Board's attention.

Below, we demonstrate that other contentions advanced by the Board and the Steelworkers are equally fallacious.

I. Contrary to the Board and the Union, the Proviso to Section 8(b)(1)(A) of the Act Does Not Privilege Local 4028's Action Against Price.

The contention is made in the briefs filed herein by the Board and the Steelworkers that the proviso to Section 8(b)(1)(A) privileges the punitive action Local 4028 took against Price. The nub of this contention is that the legislative history of that proviso shows that Congress did not intend, when it enacted Section 8(b)(1)(A), to place limitations on union disciplinary powers over what is referred to in the briefs as "the internal affairs of labor unions" (Bd. Br. pp. 7-15; St. Br. pp. 3-7, 15).

Insofar as the Board is concerned, it is pertinent to note that if there is any validity to this legislative

history-proviso argument, the theory is equally applicable in the *Skura* kind of situation. Certainly, if the filing of a Board decertification petition is "a union internal affair," so, too, is the filing of a Board unfair labor practice charge; and if the proviso's legislative history is controlling in Price's case, clear thinking would dictate that it was also controlling in Skura's. In short, neither matter is more or less "internal" to a union's functions and operations than is the other. In any event, there is no need to resolve this question, for the proviso has a meaning different from that stated by the Board and the Steelworkers, and it is not applicable in either instance.

It has already been shown that when Congress enacted Section 8(b)(1)(A), it intended, in the Supreme Court's words, "to impose upon unions the same restrictions which the Wagner Act imposed upon employers with respect to violations of employee rights" (Pet. Br. pp. 12-13). As for the Congressional intent underlying the proviso to Section 8(b)(1)(A), the proviso's legislative history confirms what is shown by its explicit language—that Congress, in enacting the proviso, simply intended to assure that (8)(b)(1)(A) be not interpreted so as to restrict a union's privilege of prescribing who would be admitted, and who would be expelled, from union membership. Thus, the proviso was offered as an amendment to Section 8(b)(1)(A) during the Senate debate on that section of the Act. The proviso's purpose was explained by its sponsor, Senator Holland of Florida, as follows (93 *Daily Congressional Record* 4398; 2 *Legislative History of the Labor Management Relations Act of 1947*, p. 1139, hereinafter cited as "Leg. Hist."):

I offer an amendment in the nature of a substitute for the amendment of the Senator from Minnesota . . . I have had some discussion with the Senator from Minnesota [Mr. Ball] and the Senator from Ohio [Mr. Taft] and with other Senators in reference to the meaning of the pending amendment and as to how seriously, if at all, it would affect the internal administration of a labor union.

Apparently it is not intended by the sponsors of the amendment to affect at least that part of the internal administration which has to do with *the admission or expulsion of members, that is, with the questions of membership.* So I offer an amendment which is a substitute for the amendment of the Senator from Minnesota. (Emphasis supplied.)

At a later point in the debate Senator Holland said (93 *Daily Congressional Record* 4400; 2 *Leg. Hist.* 1141):

. . . if accepted by the sponsors of the pending amendment, the inserted words would make it clear that the pending amendment would have no application to or effect upon the right of a labor organization to prescribe its own rules of membership *either with respect to beginning or terminating membership.* I understand that the amendment so offered meets with no serious objection on the part of the sponsors of the pending amendment. (Emphasis supplied.)

Then the following colloquy ensued between Senators Pepper, Ball, and Taft (93 *Daily Congressional Record* 4400-4401; 2 *Leg. Hist.* 1141-1142):

Mr. Pepper: . . . In discussion yesterday between the Senator from Ohio and myself with

respect to another part of the bill, dealing with the closed shop or the union shop, the Senator from Ohio stated what I recall his having stated in the committee, that if a union claimed the advantage of the status of a closed shop or union shop, it would have to have what the Senator called democracy in respect to the admission of members. I understood the Senator to say that that would mean that anyone who presented himself and was qualified in other respects for membership, and who complied with the usual conditions of membership, such as the payment of dues, and so forth, would be entitled to membership.

* * * *

Mr. Taft: I did not say that. The union could refuse membership; but if the man were an employee of the company with which the union was dealing, the union could not demand that the company fire him. The union could refuse the man admission to the union, or expel him from the union; but if he were willing to enter the union and pay the same dues as other members of the union, he could not be fired from his job because the union refused to take him.

Mr. Pepper: Am I correct in assuming that it is the interpretation of the Senator from Ohio and the Senator from Minnesota that *there is no provision of the bill which denies a labor union the right to prescribe the qualifications of its members*, and that if the union wishes to discriminate in respect to membership, there is no provision in the bill which denies it the privilege of doing so?

Mr. Ball: Absolutely not. If the union expels a member of the union for any other reason

> than nonpayment of dues, and there is a union-shop contract, the union cannot under that contract require the employer to discharge the man from his job. It can expel him from the union at any time it wishes to do so, and for any reason.[3]

After the proviso was accepted, the sponsors of Section 8(b)(1)(A) continued to urge that the purpose of the Section, notwithstanding the proviso, was to give employees the same protection against union restraint and coercion as they already were enjoying with respect to employer restraint and coercion. See, for example, Senator Taft's statement, 93 *Daily Congressional Record* 4563; 2 *Leg. Hist.* 1206. Moreover, the proviso was of such little consequence that it was not even mentioned in the report of the Conference Committee on the bill that was ultimately enacted. House Conf. Rep. No. 510 on H.R. 3020, 80th Cong., 1st Sess., 42-43; 1 *Leg. Hist.* 546-547.

In the light of this legislative history, the established principle of strict construction of provisos clearly applies to the Section 8(b)(1)(A) proviso. In *United States* v. *Dickson*, 40 U.S. 141, 165, the Supreme Court said:

> Passing from these considerations to another which necessarily brings under review the second point of objections to the charge of the court below, we are led to the general rule of law which has always prevailed, and has become consecrated almost as a maxim in the interpretation of stat-

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[3] The Seventh Circuit has pointed out that insofar as legislative history indicates that expulsion from union membership is privileged, it refers not to Section 8(b)(1)(A) of the Act, but rather to Section 8(a)(3). *Allis-Chalmers Mfg. Co.*, 358 F.2d 656, 659, 61 LRRM 2498, 2500.

> utes, that where the enacting clause is general in its language and objects, and a proviso is afterwards introduced, that proviso is construed strictly, and takes no case out of the enacting clause which does not fall fairly within its terms. In short, a proviso carves special exceptions only out of the enacting clause; and those who set up any such exception, must establish it as being within the words as well as within the reason thereof.

Similarly, in *Korherr* v. *Bumb*, 262 F.2d 157, 162 (C.A. 9), this Court said:

> . . . where words of exception are used, they are to be strictly construed to limit the exception . . . .

Accord: *Union Starch & Refining Company*, 87 NLRB 779, 784.

To recapitulate: The Seventh Circuit has held that Section 8(b)(1)(A) presents no ambiguities whatsoever, and, therefore, does not require recourse to legislative history for clarification. *Allis-Chalmers Mfg. Co.* v. *N.L.R.B.*, 358 F.2d 656, 660, 61 LRRM 2498, 2500. Moreover, the pertinent legislative history, if considered, does not support the Board's position. Thus, insofar as the term "internal union affairs" appears in the legislative history of Section 8(b)(1)(A)'s proviso, the term appears to have a meaning corresponding to, or synonymous with, the "qualifications" that unions may place on the "beginning or terminating" of union membership. Perhaps the term might even be stretched to signify union rules pertaining to attendance requirements at union meetings, the fixing of election proceedings, and the calling of strikes. See *Associated Home Builders of Greater East Bay, Inc.* v. *N.L.R.B.*, 352 F.2d 745, 748 (C.A.

9). But it is patently evident that there is nothing in the excerpts from the legislative history set forth in the briefs filed by the Board and the Steelworkers,[4] or, for that matter, in the history quoted above, to warrant attributing either to the proviso or to the subsumed term "internal union affairs" the meaning urged by the Board and the Steelworkers. Just as the union rule setting production quotas in *Associated Home Builders* "cannot come within the proviso of § 8(b)(1)(A) for this was not a mere prescribing by the Unions of rules with respect to acquisition or retention of membership therein" (352 F.2d at 750), so the rule here—Article XII of the Steelworkers Constitution (R. 17)—"cannot come" within the proviso. For the Steelworkers rule, *as interpreted and applied*, regulated, not a union matter, but rather the exercise by an employee-member of his statutory rights and the interconnection between him and the Board itself.

II. No Valid Distinction Can Be Made Between Local 4028's Fining Price and Its Action Suspending Him From Union Membership.

Distinguishing between Local 4028's fining of Price and its action in suspending him from union membership, the Steelworkers argue that suspension or expulsion from union membership cannot violate Section 8(b)(1)(A) of the Act (St. Br. pp. 3-10).[5] However,

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[4] See n. 3, *supra*.

[5] The Steelworkers assert that Price's suspension was justified because "a union engaged in a struggle for its survival cannot retain as members those seeking its demise" (St. Br. p. 9). In *Cannery Workers*, 159 NLRB No. 47, 62 LRRM

the distinction thus drawn has no validity, and the Board's brief expressly admits that "there is some coercion and restraint involved when a union suspends one of its members" (Bd. Br. n. 5 at p. 6). *Accord,* that suspension or expulsion from union membership is coercive: *Cannery Workers Union of the Pacific (Van Camp Sea Food Co., Inc.)*, 159 NLRB No. 47, 62 LRRM 1298; *Local 283, UAW (Wisconsin Motor Corporation)*, 145 NLRB 1097, 1101-1102; *Peerless Tool and Engineering Co.*, 111 NLRB 853, 857.

In the *Cannery Workers* case, *supra*, where the Board reaffirmed its *Skura* ruling and held that expulsion from union membership for filing unfair labor practice charges against a union was an action not protected by the proviso to Section 8(b)(1)(A), the Board said (62 LRRM at 1299): "We are un-

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1298, which is relied on to support the Board's position (Bd. Br. n. 14, p. 19), the oBard in effect says the same thing (62 LRRM at 1301): "To require [a union and its adherents] to tolerate an active opponent within their ranks [during an election campaign] would undermine their collective action and thereby tend to distort the results of the election." The facts, however, belie these assertions. Thus, in August 1964, the Steelworkers won the election held on Price's decertification petition (R. 7, 16); and, in view of the command of Section 9(c)(3) of the Act that "No election shall be directed in any bargaining unit or any subdivision within which, in the preceding twelve-month period, a valid election shall have been held," at least a year had to elapse before another election could have been held among the Pittsburgh-Des Moines employees. *But Price's 5-year suspension has been in effect continuously since June 1964 (R. 17-18), and, except for the possibility of compulsion by this Court, there is no indication that the suspension will be lifted before 1969.*

able to conclude that a reading of the proviso to Section 8(b)(1)(A) permits a valid distinction to be drawn between fines and expulsions meted out by a union to punish one of its members for filing charges with the Board." And, quoting from *Mitchell* v. *International Association of Machinists*, 16 Cal. Rept. 813, 815, 49 LRRM 2116 (Cal. Dist. Ct. of Appeals, 2d District), the Board explained in *Cannery Workers* that expulsion from union membership is coercive because job retention is not the only "value" involved in such membership. On the contrary, the Board indicated, there were others, including a "financial stake" in various funds to which the member may have contributed.

Courts have likewise recognized that valuable "property rights" are inherent in union membership, and have, for that reason, protected members against arbitrary or irregular expulsions. See *Musicians Protective Ass'n, Local 466* v. *Semon*, 254 S.W.2d 211, 213 (Tex. Ct. Civ. App.); *Mahoney* v. *Sailors' Union of the Pacific*, 43 Wash.2d 874, 264 P.2d 1095, 1097; *Armstrong* v. *Duffy*, 90 Ohio App. 233, 103 N.E.2d 760, 766; *Fleming* v. *Motion Picture Machine Operators*, 124 N.J.Eq. 269, 270, 1 A.2d 386, 387. Such "property rights" include the member's interest in the union's accumulated assets, in sick and death benefit funds, and in disability, old-age, accident, and sickness insurance. See *Spayd* v. *Ringing Rock Lodge No. 655*, 270 Pa. 67, 113 Atl. 70; *LoBianco* v. *Cushing*, 117 N.J.Eq. 593, 177 Atl. 102, 104. The right to be a candidate for, and to hold, union office, is another such "right." See *Armstrong* v. *Duffy*, *supra*. Moreover, the "social ramifications" of union mem-

bership cannot be overlooked. See *Mitchell* v. *International Association of Machinists, supra.*

III. Contrary to the Steelworkers, the Board Was Required to Rule on the Fine Levied Against Price.

Petitioner has already shown that the fine levied against Price is an "operative" factor in the case before the Court, and that the Board erred in treating the matter differently (Pet. Br. pp. 24-26). The Steelworkers contend that the Board had "discretion" not to rule on the fine's validity, asserting that the "practice" had either stopped or "had never reached fruition" (St. Br. pp. 10-12).[6] This contention is clearly fallacious.

The Steelworkers "fruition" argument, which is based on an assertion that only "final action" by the Steelworkers International could be coercive (St. Br. p. 12), obviously misses the point. For it is the very fact that Local 4028 levied the fine in the first place that caused Price to suffer detriment. Analyzed, the detriment inherent in the fine consisted of at least two elements: the mental anguish and discomfort of being placed under an obligation to pay the fine;[7]

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[6] The Board's brief states that the fine levied against Price became "irrelevant" after the Steelworkers' Executive Board "upheld [Price's] appeal" (Bd. Br. n. 5, p. 6). Of course, Price's appeal was not "upheld"; the Executive Board "withdrew" the fine, but "left in full effect the remaining penalties against Price" (R. 18). Moreover, the fine levied against Price was not "irrelevant" as shown in Petitioner's original brief herein, pages 24-26.

[7] The Steelworkers' brief suggests that the fine levied against Price was enforceable only by suspension or expulsion, and asserts that this is the "traditional" method employed

and the inconvenience and uncertainty involved in effecting an appeal from Local 4028's action. Moreover, realistic consideration of the fine cannot be restricted to Price alone; the fine levied affected members of Local 4028 other than Price. See *Local 542, International Union of Operating Engineers, AFL-CIO* v. *N.L.R.B.*, 328 F.2d 850, 852-853 (C.A. 3), *cert. denied,* 379 U.S. 826.

Nor are the Steelworkers on any firmer ground when they assert that it was within the Board's discretion not to rule on the fine. In the first place, it is clear that the Board's finding that the fine was not "an operative factor in this case" was a specific ruling upon the matter—albeit a wrong one. Secondly, as the complaint against Local 4028 and Local 4028's answer thereto placed "in issue" the fine levied against Price, and as this issue was "fully litigated," the Board was under an obligation to pass upon it. See *Frito Company, Western Division* v. *N.L.R.B.*, 330 F.2d 458, 463, 465 (C.A. 9); *N.L.R.B.* v. *Sterling Furniture Co.*, 202 F.2d 41 (C.A. 9). See also, *Associated Home Builders* v. *N.L.R.B.*, 352 F.2d 745,

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by the Steelworkers International and its local unions to collect fines (St. Br. pp. 12-13). It is pertinent to note that this assertion is supported by no record evidence; counsel's "awareness" of the experience of the Steelworkers International is immaterial. Unions, moreover, do in fact avail themselves of legal process to collect fines. See *Local 248, United Automobile, Aerospace and Agricultural Implement Workers of America (Allis-Chalmers Manufacturing Co.),* 149 NLRB 67, 68; *Local 283, United Automobile, Aerospace and Agricultural Implement Workers of America (Wisconsin Motor Corporation),* 145 NLRB 1097, 1099.

752-754 (C.A. 9); *Hughes Tool Company*, 147 NLRB 1573, 1576-1577.

Respectfully submitted,

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Dated: July 1966

No. 20,653

IN THE

United States Court of Appeals
For the Ninth Circuit

RICHARD C. PRICE,

Petitioner,

v.

NATIONAL LABOR RELATIONS BOARD,

Respondent,

UNITED STEELWORKERS OF AMERICA, AFL-CIO
LOCAL UNION No. 4028,

Intervenor.

ON PETITION TO REVIEW AN ORDER OF THE NATIONAL LABOR RELATIONS BOARD

BRIEF FOR UNITED STEELWORKERS OF AMERICA, AFL-CIO, LOCAL UNION NO. 4028

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COUNTER-STATEMENT OF THE CASE

United Steelworkers of America, AFL-CIO (hereinafter referred to as "Steelworkers International") has for many years been the collective bargaining representative of the approximately 100 employees at the Santa Clara plant of Pittsburgh-Des Moines Steel Company (R. 15). When it organized these employees, in 1950, Steelworkers International chartered Local 4028. Local 4028 serves only this one plant and its only members are the employees at this plant.

Petitioner, Richard Price, was since 1951 an employee at the plant, and a member of Steelworkers International and Local 4028. (R. 17).

On April 15, 1964, Price filed a petition with the NLRB to decertify Steelworkers International as the bargaining agent (R. 16).[1] On May 13, 1964, three of his fellow employees filed charges within the union alleging that, by filing the decertification petition, Price had violated the Steelworkers' prohibition against "advocating or attempting to bring about the withdrawal from the International Union of any Local Union or any member or group of members." (R. 17). Price was tried before a Trial Committee of fellow employees which found him guilty. The Trial Committee's report was presented to the membership of Local 4028 — the employees in the plant — at a special meeting. A majority of the members at the meeting voted that Price be (1) suspended from membership in the Union and precluded from attending its meetings for five years; (2) fined $500 plus costs of hearing; and (3) suspended from membership indefinitely pending payment of the fine. (R. 17-18).

Under the Constitution of Steelworkers International, a member found guilty by his local union has an appeal as of right to the International Executive Board. Price filed such an appeal, and the International Executive Board rescinded all of the penalty except the five year suspension from membership and prohibition against attending meetings. (R. 18).[2]

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[1] Initially, Price mistakenly filed a union shop deauthorization petition, although intending to file a decertification petition. He subsequently corrected his error by filing a proper decertification petition (R. 16).

[2] The Stipulation of Facts recites that "the $500 fine" was rescinded (R. 18), and petitioner's brief suggests that this meant he was still obligated to pay the cost of hearing (Pet. Br. p. 6, n. 7). This super-literal reading of the Stipulation is unwarranted, however, for the International Executive Board's rescission of the fine was intended,

Price filed an unfair labor practice charge with the National Labor Relations Board, alleging that Local 4028's conduct violated Section 8(b)(1)(A) of the Act. The Board found no violation and entered an order dismissing the complaint. Price has petitioned for review of this order.

ARGUMENT

The complaint before the NLRB challenged both the suspension from membership and the fine as violative of Section 8(b)(1)(A). The NLRB, in dismissing the complaint, held (1) that the *suspension from membership* did not violate Section 8(b)(1)(A), and (2) that the rescission of the *fine* by the International Executive Board rendered unnecessary a determination whether it violated Section 8(b)(1)(A).

It is not at all clear that Price challenges the NLRB's holding that the *suspension* did not violate Section 8(b)(1)(A). His brief is devoted exclusively to his contentions that the NLRB should have passed on the validity of the *fine,* and should have ruled it invalid. Despite the absence of any attack upon the NLRB's ruling upholding the suspension, we shall devote the first portion of our brief to that ruling, for it is to us the most important aspect of the case. In a subsequent section of our brief, we shall discuss the NLRB's holding on the rescinded fine.

I. SECTION 8(b)(1)(A) DOES NOT LIMIT IN ANY WAY A UNION'S RIGHT TO SUSPEND OR EXPEL MEMBERS.

In this portion of our brief, we defend the NLRB's ruling that the Union did not violate Section 8(b)(1)(A) by suspending Price's union membership for five years.

It may be well at the outset to emphasize what this mem-

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and was understood, as erasing all penalties except the suspension and attendance bar. The NLRB so interpreted it (R. 25), and no attempt has been or will be made to collect the cost of hearing.

bership suspension did *not* do. It did not affect Price's employment status in any way. A union which suspends or expels a member for reasons other than nonpayment of dues cannot obtain his discharge from employment, nor may it in any other way interfere with his employment rights. See, e.g., *NLRB* v. *International Association of Machinists,* 203 F.2d 173 (9th Cir. 1953); *Union Starch & Refining Co.* v. *NLRB,* 186 F.2d 1008 (7th Cir. 1951). Moreover the suspension did not relieve the Union of its duty to represent Price in his dealings with the employer. A union which enjoys the status of exclusive bargaining representative is required to represent all employees in the bargaining unit — members and non-members alike — equally, fairly, and without discrimination. *Steele* v. *Louisville and Nashville Railway Co.,* 323 U.S. 192 (1944); *Radio Officers* v. *NLRB,* 347 U.S. 17, 46-48 (1954); *Moynahan* v. *Pari-Mutuel Employees Guild,* 317 F.2d 209, 211 (9th Cir.), cert. denied 375 U.S. 911 (1963).

Thus, the only effect of Price's suspension is to bar his participation in the internal affairs of the Union. He cannot attend its meetings, vote for its officers, or participate in other internal union events.

Section 8(b)(1)(A) does not protect the enjoyment of these internal union rights. Indeed it expressly disclaims interference with unions' denials of membership to employees:

> "Sec. 8(b) It shall be an unfair labor practice for a labor organization or its agents —
>
> (1) to restrain or coerce (A) employees in the exercise of the rights guaranteed in Section 7; *Provided, That this paragraph shall not impair the right of a labor organization to prescribe its own rules with respect to the acquisition or retention of membership therein...*" (emphasis supplied).

Congress intended the proviso to mean precisely what it says. As the House Report put it:

> "*In brief, a union may deny membership to an employee upon any ground it wishes,* but the only ground on which it can have him discharged under a union security clause is non-payment of dues and initiation fees." H.R. Rep. No. 245, 80th Cong., 1st Sess. 32 (emphasis supplied).

Section 8(b)(1)(A) was introduced on the Senate floor by Senator Ball as an amendment to the bill reported out by the Senate Committee. As proposed by Senator Ball, it had no proviso. Senator Holland thereupon offered the proviso as an amendment, saying:

> "I have had some discussion with . . . Senators [sponsoring Section 8(b)(1)(A)] in reference to the meaning of the pending amendment [to enact Section 8(b)(1)(A)] and as to how seriously, if at all, it would affect the internal administration of a labor union. *Apparently, it is not intended by the sponsors of the amendment to affect at least that part of the internal administration which has to do with the admission or expulsion of members,* that is, with the question of membership. So I offer an amendment . . ." *Legislative History of the Labor Management Relations Act of 1947* at p. 1139 (G.P.O. 1948) (hereafter referred to as "LH") (emphasis supplied).

Senator Ball immediately acknowledged his acquiescence in the proviso:

> "It was never the intention of the sponsors of the amendment to interfere with the internal affairs or organization of unions. The amendment of the Senator from Florida makes that perfectly clear . . . *It* [*a union*] *can expel him* [*a member*] *from the union any time it wishes to do so, and for any reason.*" (LH 1141, 1142; emphasis supplied).

Additional legislative history to the same effect is gathered in a footnote hereto.[3]

In light of this explicit legislative history, it is not surprising that in the nineteen years since passage of the Act no union has ever been found to have violated Section 8(b)(1)(A) by expelling or suspending a member. The Board early held that expulsion and suspension cannot violate Section 8(b)(1)(A), *International Typographical Union,* 86 NLRB 951, 955-57 (1949), and its ruling won immediate judicial approval, *American Newspaper Publishers Association* v. *NLRB,* 193 F.2d 782 (7th Cir. 1951), *cert. denied* 344 U.S. 812 (1952). As the court there said:

> "Under [the proviso] Congress left labor organizations free to adopt any rules they desired governing membership in their organization. *Members could be expelled for any reason and in any manner prescribed by the organization's rules, so far as Section 8(b)(1)(A) is concerned.* This interpretation has support in the legislative history of the Act . . . It is not within the power of the courts to write into this section of the Act,

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[3] Senate Report No. 105, 80th Cong., 1st Sess. at pp. 20-21 (LH 426-427):

> "The Committee did not desire to limit the labor organization with respect to either its selection of membership or expulsion therefrom . . . It is to be observed that unions are free to adopt whatever membership provisions they desire . . ."

Senator Taft, discussing a union member who was expelled from his union, and then discharged from employment, for testifying against a union shop steward:

> "In a case of that sort, the committee bill provides that the employer does not have to fire the employee. The Union can discharge him from union membership if it wishes to do so . . ." (LH 1420)

See also, to the same effect, colloquy between Senators Taft, Ball and Pepper, quoted in *Union Starch & Refining Co.* v. *NLRB,* 186 F.2d 1008, 1012, n. 1 (7th Cir. 1951).

by interpretation, language which would broaden its scope." (193 F.2d at 800; emphasis supplied.)

The rule is so clear that, in succeeding years, General Counsels of the NLRB have refused even to issue complaints where the charge was that a union violated Section 8(b)(1)(A) by suspending or expelling a member. NLRB Gen. Counsel Adm. Ruling, Case No. 189, 28 LRRM 1488 (1951) (suspension for filing decertification petition); NLRB Gen. Counsel Adm. Ruling, Case No. 1059, 35 LRRM 1167 (1954) (suspension for filing charges with NLRB); NLRB Gen. Counsel Adm. Ruling SR-927, 47 LRRM 1033 (1960) (suspension for attempting to supplant incumbent union with rival union); NLRB Gen. Counsel Adm. Ruling SR-2599, 52 LRRM 1370 (1963) (threat of expulsion for joining rival union).

Even those contending that *fines* can violate Section 8(b)(1)(A) have acknowledged that expulsion and suspension cannot. For example, former Board Member Leedom, dissenting from the Board's holding that a union did not violate Section 8(b)(1)(A) by fining members for exceeding work quotas, said:

> "*Congress preserved the right of unions to deny membership to, or terminate the membership of, whomever they pleased regardless of the reason;* but, at the same time, Congress insulated employees from coercion by making sure they would suffer no *economic consequences* as a result of such action." *Wisconsin Motor Corp.,* 145 NLRB 1097, 1111 (1964) (Emphasis supplied.)

To the same effect, see *Allis-Chalmers* v. *NLRB,* 358 F.2d 656, 658, 659 (7th Cir. 1966) (holding that a union violated Section 8(b)(1)(A) by fining members for crossing picket lines, but expressly recognizing that expulsion

would not have violated Section 8(b)(1)(A)[4]); and *Roberts* v. *NLRB,* 350 F.2d 427, 428, n. 2 (D.C. Cir. 1965) (holding that a union violated Section 8(b)(1)(A) by fining a member for filing unfair labor practice charges, and rejecting the union's reliance on the proviso because "imposition of the fine" is "too remote from a rule with respect to the acquisition or retention of membership.") See also, this Court's opinion in *Associated Home Builders* v. *NLRB,* 352 F.2d 745 (9th Cir. 1965) (leaving open the question whether a fine can violate Section 8(b)(1)(A), but apparently agreeing that expulsion cannot[5]).

The Supreme Court, in 1957, referring to the proviso in Section 8(b)(1)(A), concluded:

> ". . . the protection of union members in their rights as members from arbitrary conduct by unions and union officers has not been undertaken by federal law, and indeed the assertion of any such power has been expressly denied." *International Association of Machinists* v. *Gonzales,* 356 U.S. 617, 620.

Of course, since 1957, Congress *has* begun regulating internal union affairs. In Title I of the Labor-Management Reporting and Disclosure Act of 1959, 29 U.S.C. §411—the "Bill of Rights of Members of Labor Organizations"—Congress created certain precise standards governing union discipline. Enforcement of these standards, however, was assigned to private actions in the federal district courts, not to

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[4] E.g. at page 658: "The parties agreed . . . that the Union may expel its members for any reason authorized by its rules *** Allis-Chalmers contended . . . that union discipline for such activity violates § 8(b)(1)(A) if it takes any form other than expulsion from the union." Again, at page 659: "Congress . . . did specifically make provision permitting disciplinary expulsion."

[5] At page 748: "The petitioner appears to recognize . . . that this section was directed against the use of physical force or threats of force or of economic reprisal . . . The argument is that the imposition of a fine amounts to economic reprisal."

the NLRB, and accordingly no change was made in Section 8(b)(1)(A). Moreover, in adopting these standards, Congress expressly preserved the union's right to discipline members who engage in acts of disloyalty to the union. A proviso to Section 101 (a)(2) of the LMRDA, 29 U.S.C. §411(a)(2), declares that "nothing herein shall be construed to impair the right of a labor organization to adopt and enforce reasonable rules as to the responsibility of every member toward the organization as an institution."

A union faced with a decertification election must wage a strenuous campaign to persuade the employees to retain it. In conducting that campaign, its members must meet and decide upon their election strategy. The union cannot effectively wage that campaign if its opponents — the very persons seeking to decertify it — are entitled to "equal rights and privileges . . . to participate in the deliberations and voting upon the business of [its] meetings"—rights and privileges guaranteed to *members* by Section 101(a)(1) of the LMRDA, 29 U.S.C. §411(a)(1).

Just as a nation does not tolerate the activities of those who work for its downfall, a union engaged in a struggle for its survival cannot retain as members those seeking its demise. Nor, even after the immediate struggle is over, is a union likely to want to return to its ranks one dedicated to its eventual overthrow. Here, for example, the union won the decertification election (R. 16), but the members of Local 4028 have voted that Price not be permitted to attend its meetings for a period of five years (R. 17). Virtually every union constitution provides for the suspension of those who seek to defeat the union. The proviso to Section 101 (a)(2) was enacted to protect this legitimate union interest.

Of course, the only issue in this case is whether the union violated Section 8(b)(1)(A). We have mentioned the LMRDA only because the express Congressional approval in 1959 of discipline imposed for disloyalty reinforces the

conclusion that such conduct does not violate Section 8(b)(1)(A).

II. LOCAL 4028 DID NOT VIOLATE SECTION 8(b)(1)(A) BY IMPOSING A FINE.

We turn now to the second aspect of this case — the NLRB's disposition of the "fine" issue. The NLRB's decision on this point was as follows:

> "Although the Respondent also imposed a fine on Price, this fine was, as noted, later withdrawn by the International Executive Board following an appeal by Price from the action of the Respondent. As Price was therefore never obligated to pay a fine, we see no warrant for concluding that the initial levy of the fine ever became an operative factor in this case." (R. 27, n. 4.)

In other words, the NLRB held that in light of the International Executive Board's action, there was no need to rule on whether the fine, if it had become operative, would have violated Section 8(b)(1)(A).

Petitioner, challenging the NLRB's decision, contends that the NLRB (1) should have passed on the validity of the fine, and (2) should have found it unlawful. We deal with each of these contentions in turn.

A. The NLRB's Decision Not to Rule on the Validity of the Fine Was Within Its Discretion.

As an agency whose responsibility is to the public, the NLRB is vested with wide discretion in determining whether the public interest requires issuance of an order against a practice which has stopped, or which, though set in motion, never reached fruition.

Thus, while the NLRB frequently enters an order against an unfair labor practice, even though it has ceased, on the theory that the wrongdoer might repeat his conduct,[6] it

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[6] E.g. *NLRB* v. *Local 101, Operating Engineers,* 315 F.2d 328 (10th Cir. 1963); *NLRB* v. *United Hatters,* 286 F.2d 950 (4th Cir. 1961); *NLRB* v. *Local 751, Carpenters,* 285 F.2d 633 (9th Cir. 1960).

sometimes decides that in the circumstances of a particular case the danger of repetition is so unlikely as not to require issuance of an order to protect the public interest.[7]

The NLRB was surely within its discretion in concluding that this case falls into the latter category. As the NLRB noted, the fine voted by the membership of Local 4028 never became operative, because eliminated by the International Excutive Board on Price's appeal. There is nothing in the record to suggest that the International Executive Board would rule differently if a similar case arose in the future. The NLRB could therefore reasonably conclude that, in light of the determinative role played by the International Executive Board in this case, there exists no need for intervention by a public agency.

Indeed, it is a fundamental tenet of our national labor policy to keep public intervention in the internal affairs of unions at a minimum.[8] To effectuate this policy, maximum latitude is accorded union appellate procedures, in the hope that they will "moot" disputes and render public intervention unnecessary.[9] In this very case, the union's appellate machinery resulted in the rescission of the fine, and its elim-

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[7] E.g. *Whyte Manufacturing Co.,* 109 NLRB 1125 (1954); *Fleetwood Trailers,* 118 NLRB 1355 (1957); *General Dynamics,* 145 NLRB 752 (1963); *Robertshaw-Fulton Controls Co.,* 127 NLRB 64 (1960); *International Woodworkers,* 131 NLRB 189 (1961); *The Crossett Co.,* 140 NLRB 667 (1963).

[8] S. Rep. No. 187, 87th Cong., 1st Sess. (1959), p. 7 (reporting out the bill which ultimately became the Labor-Management Reporting and Disclosure Act of 1959):

> "The committee recognized the desirability of minimum interference by Government in the internal affairs of any private organization . . . [I]n establishing and enforcing statutory standards great care should be taken not to undermine union self government."

[9] See, *e.g.,* the proviso to § 101(a)(4) of the LMRDA, 29 USC § 411(a)(4), and § 402, 29 USC § 482. Cf. *Air Line Stewards* v. *Transport Workers Union,* 334 F.2d 805 (7th Cir. 1964).

ination as a cause of dispute between the parties. The NLRB, by honoring that appellate action as determinative, has effectuated the public policy of nonintervention.

Petitioner attempts to liken this case to one in which a party who has engaged in an unlawful course of conduct stops only because threatened with Board litigation. But petitioner has misconceived what happened here, for this case is not at all like those it cites. In the first place, the allegedly unlawful conduct — imposition of a fine — never achieved fruition. The same Constitution which authorized Local 4028 to impose the fine authorized Price to take the appeal which eventuated in its rescission. (Stated another way, the determination by a subordinate body to impose a fine cannot be "restraint" or "coercion" if the fined member has an appeal as of right to a higher union body; there is not yet any final union action.). In the second place, this is not a case where the alleged wrongdoer, confronted with the threat of Board litigation, reversed its course — a circumstance casting doubt on the verity of its reformation. Here, rather, the fine was rescinded by Steelworkers International, which was not charged by petitioner with any wrongdoing, and whose conduct should be taken, at face value, as evidence that it thought the "penalty" unsuited to the "crime."

Finally, we note this Court's admonition in *Associated Home Builders* v. *NLRB,* 352 F.2d at 750-751, n. 9, that the validity of fines under Section 8(b)(1)(A) is an issue of much complexity, and that alternative solutions which make it "unnecessary to solve these problems" are desirable. We believe this consideration is an additional reason for sustaining the Board's exercise of discretion in not reaching or ruling upon the validity of the fine.

B. A Fine Enforceable Only By Suspension or Expulsion from Membership Is Within the Proviso of Section 8(b)(1)(A)

In the preceding section, we have shown that the Board acted properly in holding that the "fine" issue was effectively

resolved by the International Executive Board's action rescinding it. If the Court agrees, it will not have to pass on the validity of the fine under Section 8(b)(1)(A).

However, if this Court decides to reach the issue, we believe it must conclude that Local 4028's conduct did not violate Section 8(b)(1)(A).

At the outset, it is important to recognize the specific means dictated by Local 4028 for enforcement of the fine. The membership action suspending Price for five years, and imposing the fine, also provided that he was to be "suspended from membership completely, pending payment of the fine." (R. 18). In other words, Price's suspension would be continued beyond five years unless and until he paid the fine.

Traditionally, this has been the sole procedure employed by Steelworkers International and its local unions for enforcing fines. We are not aware of a single instance, in the thirty-year life of Steelworkers International, in which a suit has been brought to collect a fine, nor does petitioner cite any.

In light of the limited means of enforcement written explicitly into the disciplinary penalty imposed on Price, the fine imposed by Local 4028 was a "rule respecting the . . . retention of membership," precisely within the proviso to Section 8(b)(1)(A). It was nothing more than an indefinite suspension from membership, with a proviso that membership could be recaptured after five years by paying the fine to the Union. Price had the option of accepting permanent suspension from the Union without financial cost, or, *if he preferred,* regaining his membership by paying the fine.

As we showed in Part I of this brief, Local 4028 could have suspended Price permanently without violating Section 8(b)(1)(A). Surely its conduct did not become unlawful because it provided Price an option to return.

C. Even a Fine Enforceable in Court Does Not Constitute "Restraint" or "Coercion" Within the Meaning of Section 8(b)(1)(A).

We have shown that in this case the only means adopted by Local 4028 for enforcing the fine was continued suspension of Price's membership, and that its action fell squarely within the proviso to Section 8(b)(1)(A). Therefore the principal issue discussed in petitioner's brief—the validity of a judicially enforceable fine—is not presented by the facts of this case. Nevertheless, because petitioner has argued the point so extensively, we shall set forth our views.

Section 8(b)(1)(A) outlaws "restraint" and "coercion" of employees in the exercise of their Section 7 rights. Two factors must combine before a violation can occur: the employee must be exercising a Section 7 right, and the Union must "restrain" or "coerce" him in the exercise of that right. It is our contention that a union fine imposed upon a member for exercising a Section 7 right does not constitute the kind of "restraint" or "coercion" outlawed by Section 8(b)(1)(A).

It is true, of course, that a fine collectible in court is an economic sanction, and that it is "restraint or coercion in the ordinary meaning of those terms." *Roberts* v. *NLRB,* 350 F.2d 427 (D.C. Cir. 1965). However, the Supreme Court has cautioned against assigning to the words of Section 8(b)(1)(A) their ordinary meanings. *NLRB* v. *Teamsters Local 639 (Curtis Bros.),* 362 U.S. 274 (1960). The Court there noted that Section 8(b)(1)(A) represented a compromise between strongly conflicting viewpoints about the legitimate scope of labor union activities, and that an expansive interpretation of its terms would do violence to the Congressional compromise. The Court concluded that the words "restrain or coerce" constitute a " 'restricted phrase' to be equated with 'threat of reprisal or force or promise of benefits' ". 362 U.S. at 284. As the Court put it in *Radio Officers' Union* v. *NLRB,* 347 U.S. 17, 40

(1954), "The policy of the Act is to insulate employees' jobs from their organizational rights."

The legislative history of Section 8(b)(1)(A) demonstrates that it was directed exclusively against acts of violence and interference with job rights, and that Congress did not intend to limit in any way the Union's right to fine its members. The House bill as originally passed *had* contained specific provisions outlawing union fines for certain purposes. (Section 8(c), H.R. 3020, 80th Cong., 1st Sess. (1947)). These were eliminated by the Senate, and the House agreed in conference to their elimination. As the House Conferees explained:

> "Section 8(c) of the House bill contained detailed provisions dealing with the relations of labor organizations with their members. One of the more important provisions of this section—that limiting the initiation fees which a labor organization may impose where a permitted union shop or maintenance of membership agreement is in effect—is included in the conference agreement (sec. 8(b)(5)) and has already been discussed. *The other parts of this subsection are omitted from the conference agreement as unfair labor practices.*" H. Conf. Rep. No. 510, 80th Cong., 1st Sess. p. 46 (1947). (Emphasis supplied)

In view of the express legislative determination that fines were not to constitute unfair labor practices,[10] it is hardly suprising that, in the first 17 years of Section 8(b)(1)(A)'s life, no union was ever held to violate it by fining a member, regardless of the reason for the fine. The Board's consistent position was that fines, like suspensions and expulsions, are not among the means proscribed by Section 8(b)(1)(A).

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[10] There is considerable legislative history, in addition to that cited here, demonstrating the Congressional intent that Section 8(b)(1)(A) does not outlaw unions' fines. We have not set forth that history because we assume the Board will do so in its brief, as it did in *Associated Home Builders* v. *NLRB, supra.*

See, e.g. *Minneapolis Star and Tribune Co.,* 109 NLRB 727 (1954); *Wisconsin Motor Corp.,* 145 NLRB 1097 (1964); *Allis-Chalmers Mfg. Co.,* 149 NLRB 67 (1964). The one appellate court which passed on the question likewise held that fines cannot violate Section 8(b)(1)(A). *American Newspaper Publishers Ass'n* v. *NLRB,* 193 F.2d 782 (7th Cir. 1951), *cert. denied* 344 U.S. 812 (1952); cf. *Allen-Bradley Co.* v. *NLRB,* 286 F.2d 442 (7th Cir. 1961).

Two recent developments have unsettled this 17-year tranquility. First, the Board, in 1964, declared that union fines imposed upon members for filing unfair labor practice charges would henceforth be held violative of Section 8(b)(1)(A), *Local 138, Operating Engineers (Charles S. Skura),* 148 NLRB 679 (1964); *H. B. Roberts,* 148 NLRB 674 (1964), *enforced* 350 F.2d 427 (D.C. Cir. 1965). Second, the Seventh Circuit, by a 4 to 3 vote reversing the Board, has held that a union violates Section 8(b)(1)(A) by fining a member for crossing a picket line. *Allis-Chalmers* v. *NLRB,* 358 F.2d 656 (7th Cir. 1966). We shall briefly discuss each of these developments.

The *Allis-Chalmers* decision was rendered on rehearing *en banc.* In the original decision, a three judge panel unanimously ruled that the legislative history clearly demonstrates that Section 8(b)(1)(A) does not outlaw union fines, and therefore affirmed the Board. 60 LRRM 2097 (7th Cir. 1965). The Court reversed the panel decision, 4 to 3. The new majority included two of the members who had voted to affirm the Board in the panel decision, but who now "confessed error". Judge Knoch, writing for the new majority, explained that the vice of the original decision was that it looked to the legislative history. While, to be sure, the legislative history supported the panel decision, Section 8(b)(1)(A) is clear on its face, and therefore does "not require recourse to legislative history for clarification." 358 F.2d at 660. In strong dissents, Chief Judge Hastings and Judges Kiley and Swygert pointed to the Supreme Court's

admonition in *Curtis Brothers* that Section 8(b)(1)(A) must not be interpreted as it reads, but rather must be given a restrictive interpretation in light of the legislative history. We submit that the majority decision in *Allis-Chalmers* was plainly wrong, and that a comparison of the majority and dissenting opinions leaves little doubt that the dissenters' interpretation of Section 8(b)(1)(A) as not reaching union fines is correct.

While the decision on rehearing in *Allis-Chalmers* constituted an attack on the general proposition that fines cannot violate Section 8(b)(1)(A), the Board's decisions in *Skura* and *Roberts* do not. Indeed, in these decisions, the Board reaffirmed its view that Section 8(b)(1)(A) does not outlaw union fines imposed upon members for exercising Section 7 rights. 148 NLRB at 682. The Board purported to carve out a tiny exception—limited to cases where fines are imposed for filing unfair labor practice charges—because of the "overriding public interest" in assuring members' opportunities to expose wrongdoing by their union. Id. at 682. In effect, the Board declared that, in this limited area, it was subordinating the intention of Congress to what it considered more important considerations.

However laudatory may be the Board's zeal to serve "overriding public interests" at the expense of the Act, the fact is that it is accorded no such power. It cannot insist, as it does, that Congress exempted fines from the ambit of Section 8(b)(1)(A), and simultaneously contend that that rule must "yield" in one tiny area where it believes the rule injudicious. It is up to Congress, not the Board, to expand the Act if it deems it inadequate. The fact is that, despite widespread revision of the Taft-Hartley Act in 1959, Congress did not see fit to reverse the Board's consistent interpretation [11] of Section 8(b)(1)(A) as not outlawing fines for filing unfair labor practices. To the extent it desired to

[11] See, e.g. NLRB Gen. Counsel Adm. Ruling, Case No. K-103, 37 LRRM 1103 (1955).

limit imposition of fines or other forms of union discipline for suing the union, Congress entrusted enforcement to private lawsuits, under Section 101(a)(4) of the LMRDA, 29 U.S.C. §411(a)(4). It did not amend or expand Section 8(b)(1)(A).

The Board will undoubtedly urge the Court to distinguish this case from *Skura.* We believe, however, that such a distinction would be unwarranted, because *Skura* is plainly wrong. Therefore, if the Court reaches this issue, we urge that it hold squarely that union fines cannot violate Section 8(b)(1)(A).

One final word. The District of Columbia Circuit, in upholding the Board's *Skura-Roberts* rulings, gave a different reason for its action: that the *end* served by the fine was an improper one, and therefore within the scope of Section 8(b)(1)(A). It read the legislative history as exempting union fines only where their purpose was limited to influencing internal union affairs, and not where their purpose extended beyond such affairs. This confusion of means and ends has been expressly rejected by this Court. In *Associated Home Builders* v. *NLRB,* 352 F.2d 745, 748 (9th Cir. 1965), this Court recognized that "in §8(b)(1)(A), Congress was aiming at means, not at ends, and . . . this section was directed against the use of physical force or threats of force or of economic reprisal." Under Section 8(b)(1)(A), the *purpose* of the fine is not the issue. The sole issue, as this Court recognized, is whether "imposition of a fine amounts to economic coercion." (352 F.2d at 748). For the reasons set forth hereinabove, we submit that it does not.[12]

While we have answered at some length the contentions

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[12] An alternative basis for resolving this issue is that fines are covered by the proviso, and therefore cannot violate Section 8(b)(1)(A) even if they constitute "restraint" or "coercion." For an exposition of this thesis, see the Board's decision in *Allis-Chalmers* and *Wisconsin Motors, supra.*

in petitioner's brief, we wish to reiterate what we said at the outset: we do not think this issue is presented by the facts of this case. Rather, the Court should affirm the Board's discretionary determination not to rule on the validity of the fine or, alternatively, it should hold that a fine enforceable only by continued suspension from membership is protected by the proviso to Section 8(b)(1)(A).

CONCLUSION

For the reasons set forth hereinabove, the Board's decision and order, dismissing the complaint, should be affirmed.

Respectfully submitted,
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CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

MICHAEL H. GOTTESMAN
Attorney

No. 20,653

IN THE

United States Court of Appeals

For the Ninth Circuit

RICHARD C. PRICE, *Petitioner*

vs.

NATIONAL LABOR RELATIONS BOARD, *Respondent*

On Petition for Review of an Order of the National Labor Relations Board

BRIEF FOR LABOR POLICY ASSOCIATION, INC., AS AMICUS CURIAE

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On Petition for Review of an Order of the National Labor Relations Board

BRIEF FOR LABOR POLICY ASSOCIATION, INC., AS AMICUS CURIAE

Pursuant to leave of this Court granted February 9, 1966, and with the consent of both the Petitioner and Respondent herein, Labor Policy Association, Inc., respectfully submits this brief *amicus curiae* in support of the aforesaid Petitioner, Richard C. Price.

Interest of Amicus Curiae

Labor Policy Association, Inc., herein called "LPA," is a nonprofit corporation organized and existing under the laws of the District of Columbia with headquarters in Washington, D.C. LPA was established, and is maintained, for the following purposes, as quoted from its charter:

> To make and to encourage researches and studies pertaining to government policies affecting labor and labor relations and their effects

> upon individual liberty, a free competitive market, the welfare of labor and industry, and any or all elements of the social order and economy of the United States; and labor policies and practices of labor unions and their effects; and any or all other matters affecting or affected by labor policies or practices; and, in the public interest, to publish and distribute such researches and studies and by any lawful media otherwise to engage in educational efforts to bring about a better understanding among the people of the United States, including appropriate public officials, of the causes and effects of policies and practices affecting labor.

Among the specific interests of LPA and its members are the development and evolution of national labor policies through the decisions of administrative agencies of the government.

The membership of LPA is composed of employers engaged in various manufacturing industries. Included are employers engaged in the manufacture of electrical equipment, farm machinery, machine tools, heavy industrial machinery, road building equipment, steel and steel fabricating, petroleum products, mining and smelting, chemicals, containers, basic plastics, and other products. These LPA members employ several hundred thousand employees, most of whom are represented for purposes of collective bargaining by, and are members of, labor organizations.

Statement of the Case

LPA, having read the briefs submitted to the Court, adopts the Statement of the Case, as set forth at pages

2-6 of the brief of Petitioner Richard C. Price (hereinafter sometimes referred to as Price). In connection with that statement LPA respectfully calls the attention of the Court to the following undisputed facts:

1. Price was required, as a condition of employment, to pay union membership dues during the term of the collective bargaining agreement between his employer and Intervenor, Local Union No. 4028, hereinafter sometimes referred to as the Union (Pet. Br., pp. 2-3; Bd. Br., pp. 2-3).

2. While a member of the Union, Price mistakenly filed a union shop deauthorization petition with the Board, which he withdrew upon learning of his error, and thereafter filed a decertification petition as he originally intended (Pet. Br., p. 3; Bd. Br., p. 3).

3. For these actions Price was suspended from membership in Local No. 4028 for five years, was fined $500 plus costs of hearing before Local 4028's Trial Committee, and was precluded from attending Union meetings for five years and indefinitely thereafter until the fine was paid (Pet. Br., p. 4; Bd. Br., pp. 3-4).

4. Subsequently, Local No. 4028's parent organization (which was not a party in the proceedings before the Board) withdrew the fine but left in effect the other penalties imposed on Price (Pet. Br., pp. 4-5; Bd. Br., p. 4).

Argument[1]

Few cases before the Board have involved issues more fundamental to the proper protection of the rights of employees guaranteed by the Act than does this proceeding, for the issue here is whether an individual union member is free to initiate a change in, or the removal of, his bargaining agent. This is not a complicated issue. However, an erroneous Board rationale has tended to obscure the plain meaning of the statute and the underlying Congressional intent, and has reached a result inconsistent with closely related Board decisions. This Board rationale would attach to the Act administratively legislated provisos and conditions unsupported by history or logic.

Reduced to its realities, this case will determine whether the exercise of a statutory right—the right to file a petition with the Board—is to be subordinated to the privilege of a labor organization to act as exclusive bargaining representative of a group of employees. Price, by filing a decertification petition, invoked his right to raise a question concerning representation in the bargaining unit where he was employed. Local 4028, by its fine and suspension, effectively destroyed that right, both as to Price and his fellow employees, and immunized its exclusive bargaining status from question by those most directly concerned, the members of the bargaining unit.

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[1]To conserve the time of the Court, LPA will not reiterate the arguments set forth by Petitioner in both his principal and reply briefs and, instead, adopts the arguments ably set forth therein.

Consequently, it is in the context of the practical results which will flow from the Board's decision, if it is not reversed, that LPA respectfully asks the Court to consider the arguments presented below.

I. Both the Fine and Suspension Imposed on Petitioner for Exercising His Right to File a Decertification Petition Constitute Unlawful Restraint and Coercion.

The Board acknowledges that there is coercion and restraint involved in both a fine and suspension from union membership, making no effort to distinguish between the two (Bd. Br., n. 5, pp. 5-6). This is consistent with the Board's treatment in other cases where it has unhesitatingly declared that both fines (for example, *Local 138, Operating Engineers (Charles S. Skura),* 148 NLRB 679, 682) and expulsion or suspension from union membership (for example, *Local 283, UAW, AFL-CIO (Wisconsin Motor Corporation),* 145 NLRB 1097, 1101-1102; *Cannery Workers Union of the Pacific (Van Camp Sea Food Co., Inc.),* 159 NLRB No. 47, 62 LRRM 1298) are coercive. Moreover, as shown in Petitioner's briefs (Pet. Br., pp. 24-26; Reply Br., pp. 14-16), by reason of its mere imposition the fine was coercive on Price and his fellow employees, and was an operative fact in the case even though a portion of the fine[2] was subsequently withdrawn by an organization not a party to the Board proceeding—Local 4028's parent organization. Consequently, whether on the basis of the record, the position of the Board in its brief, or

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[2]If that portion of the fine consisting of Trial Board costs was withdrawn, it is not disclosed by the stipulated facts (See Pet. Reply Brief, n. 1, p. 3).

the Board's consistent treatment of both fines and suspensions as coercive, LPA submits that no distinction should be drawn by this Court between the fining and suspension of a union member for conduct of the sort that Price engaged in.

A further, and most significant, supporting reason for recognizing the coercive impact of a fine and suspension in the context of this case is that this may well be the sole opportunity for a Court of Appeals to speak on the matter. For LPA, which has carefully followed the policy of the General Counsel in issuing complaints in the so-called "union fine" area, is convinced that the General Counsel, following Board precedent, now limits such complaints to the narrow area of coercion levied against union members who file unfair labor practice charges.[3] Therefore, unless this Court specifically upholds the right of an individual employee to be protected from both fines and suspension when he files a deauthorization or decertification petition, the Board's failure to protect that right will become fixed and the right of a union member to file such petitions will effectively be destroyed.

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[3]The General Counsel has absolute authority over the issuance of unfair labor practice complaints, Section 3(d) of the Act specifically providing that the General Counsel "shall have final authority, on behalf of the Board, in respect to the investigation of charges and the issuance of complaints under Section 10 . . . ."

II. The Right of Employees to Select or Reject a Bargaining Agent Through Filing a Petition Under Section 9 of the Act Is Fundamental and May Not Be Subordinated to the Right of Employees to File an Unfair Labor Practice Charge Under Section 8.

Local 4028's coercive conduct here was directed at discouraging one of its members from filing a decertification petition with the Board. Such a petition permits employees in the bargaining unit to withdraw exclusive bargaining authority previously bestowed upon a union.

Insofar as this case is concerned, no meaningful distinction may be shown between the filing of a decertification petition and a petition filed by a member of a bargaining unit seeking to replace the existing bargaining agent with a rival labor organization. Nevertheless, the Board's reasoning would compel the same result had Price been disciplined for filing, or supporting, a typical representation petition on behalf of a rival group. Thus, Price's discipline was permissible, according to the Board, because his purpose was to attack the very existence of Local 4028 itself. But a petition to certify a rival union would have been equally effective in undermining Local 4028's existence if, in fact, that existence had been dependent upon its status as bargaining representative of the Pittsburgh-Des Moines employees.[4]

[4]The fact that the Board would permit a union to fine or otherwise discipline members who file *any* petition under Section 9 is apparent from the distinction the Board drew in the *Van Camp* case, *supra,* between Board cases arising under Section 8 of the Act and Board cases arising under Section 9. We advert to this "distinction" below.

On the other hand, should the Board attempt to distinguish union discipline for filing a decertification petition from similar coercion for filing, or supporting, a certification petition, it would be inescapable that the right of employees to *change* bargaining agents would be regarded by the Board as superior to their right to *reject* such an agent. But such a concept is foreign to the Act in its present form and was, in fact, a principal reason for the 1947 amendments specifically guaranteeing the right of employees to refrain from union activities.

The Board was on solid ground in the *Skura* case (*Local 138, Operating Engineers (Charles S. Skura)*, 148 NLRB 679), where it refused to sanction a union fine imposed on a member who had filed an unfair labor practice charge against the union. There the Board emphasized that ". . . no private organization should be permitted to prevent or regulate access to the Board" because of the overriding public interest involved. The Board's footing is lost completely, however, when it now takes the position that, in election matters, the public interest disappears and control of access to the Board is ceded to a private organization.

The basis of the Board's inconsistent approach between *Skura* on the one hand and this case on the other is, at most, superficially explained in the Board's decision herein being reviewed. In the very recent *Van Camp* case (*Cannery Workers Union of the Pacific (Van Camp Sea Food Company, Inc.)*, 159 NLRB No. 47, 62 LRRM 1298), the Board, however, set out a more extensive treatment of its views, and,

in so doing, revealed the glaring inconsistencies and errors in its logic.

In the *Van Camp* case, the Board found a union in violation of Section 8(b)(1)(A) of the Act when a union member was expelled, though not fined, for filing unfair labor practice charges without exhausting the internal remedies provided by the union's constitution. The Board, relying upon *Skura* and the supporting decision of the United States Court of Appeals for the District of Columbia Circuit in *Roberts v. N.L.R.B.,* 350 F.2d 427, pointed out in *Van Camp* that the union's activity went beyond so-called "internal affairs" and into the public domain. For this reason, the union's immunity under the proviso of Section 8(b)(1)(A) was eliminated, the Board stating (62 LRRM at 1300), ". . . the proviso was never envisioned as extending to and shielding union conduct designed to frustrate the policies of an Act of Congress by obstructing the operations of the federal agency entrusted by Congress with effectuation of these policies."

The efforts of the Board in *Van Camp* to distinguish its protection against union coercion of employee conduct involving the filing of charges under Section 8, and its failure to provide such protection for the filing of petitions under Section 9, is bewildering as a matter of logic. It does, however, illuminate the Board's philosophy. Thus, the Board states that Section 8 charges relate to events which have already occurred and that they set in motion the Board's investigatory machinery which, in turn,

leads to a dismissal of the charges or a final adjudication by the Board on the basis of a record developed at a hearing. Then the Board notes that whether the charge is dismissed or proceeds to hearing, the determination is made by a public agency's "objective appraisal of fixed events." Therefore, says the Board, the Section 8 proceeding provides no occasion for influencing or persuading employees to support a particular disposition of the matter; neither can the employees' subjective views concerning the events involved nor their solidarity with fellow union members have any legitimate effect on the proceeding's outcome. Finally, the Board states, it is concerned in Section 8 cases only with ". . . the vindication of the public interest in securing obedience to the statute."

The Board's characterization of its own processing of an unfair labor practice case as "an objective appraisal of fixed events" is questionable. Certainly, the statement is not borne out by the Board's notorious practice of frequently reversing its own precedents.[5] The fact that the Act was twice revised, in

[5]In the representation case area, the current Board has repeatedly reversed existing Board precedents which tended to decrease union power or impair union interests. Such reversals invariably undercut or abrogated existing employee rights and individual interests. Thus, for example, the current Board has modified the rules regarding voting arrangements in representation cases to favor labor organizations. See *Ballentine Packing Company, Inc.*, 132 NLRB 923, overruling *Independent Linen Service Company*, 122 NLRB 1002; *Felix Half and Brother, Inc.*, 132 NLRB 1523, overruling *Waikiki Biltmore, Inc.*, 127 NLRB 82; *D. V. Displays Corp.*, 134 NLRB 568, overruling *The Zia Company*, 108 NLRB 1154. Similarly, the current Board has relaxed existing contract-bar principles so that existing contracts would more frequently bar petitions, and thus assure the continuance of the incumbent's bargaining status. See *Paragon*

1947 and in 1959, a result brought about in substantial part because of the criticism directed at the Board, also belies the Board's assertion. Moreover, it is somewhat naive, to say the least, for the agency which purports to have expertise in the field of labor-management relations and broad experience in the preparation and trial of unfair labor practice proceedings, to say that the outcome of Section 8 proceedings is not influenced by employees' subjective views or that there is no opportunity in such proceedings to persuade employees to support a particular viewpoint.

More significant, however, is the Board's emphasis in *Van Camp* on Section 8 proceedings as vindicating the public interest in securing obedience to the statute and, although acknowledging that Section 9 proceedings ". . . are no less in the public domain . . .," its anomalous statement that the latter should be treated differently because they are ". . . concerned with ascertaining the desires of employees as to union representation." Thus, with respect to Section 9 cases, the Board says (62 LRRM at 1300):

> The matter of union representation is resolved, not through any appraisal by the Board of alleged past events, but rather by the employees themselves, through their votes in a Board-conducted election.

Products Corporation, 134 NLRB 662, overruling *Keystone Coat, Apron & Towel Supply Company*, 121 NLRB 880; *Food Haulers, Inc.*, 136 NLRB 394, overruling *Pilgrim Furniture Company*, 128 NLRB 910; *William J. Burns International Detective Agency*, 134 NLRB 451, overruling *Columbia-Southern Chemical Corporation*, 110 NLRB 1189.

Rarely has any administrative agency ever so clearly exposed its belief that the agency is better qualified to determine the desires of the individuals which it is supposd to protect, than are those individuals themselves.

The Board also asserts in *Van Camp* that, because during Section 9 proceedings employees are "properly" subjected to campaigning by the employer, the unions involved, and by fellow employees, the union and its adherents can perform their legitimate function "only if they are unified." The Board adds (62 LRRM at 1301): "To require [the union and its adherents] to tolerate an active opponent within their ranks would undermine their collective action and would thereby tend to distort the results of the election." In other words, the Board seems to be saying that in order to assure that no voice be raised against the union, the union may, with Board approval, coerce employees so that no election will ever be held. It seems incredible that any administrative arm of our federal government would so blatantly stamp out the right to dissent not only by a minority but, in many instances, by the majority itself.[6]

The practical result of the Board's reasoning, as exposed by its *Van Camp* decision, is to reconstruct the entire statute. The union member's right to file

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[6]Noticeably missing from the Board's reasoning is any indication that the union proponent working within the ranks of unorganized employees destroys the unity of those employees.

an unfair labor practice charge against his union may be protected under *Skura* from fine or suspension, but his right to change bargaining agents is rendered meaningless. For once bargaining status is obtained, the union may effectively stamp out any membership revolt which seeks to undermine its status. The Board's likening of Price's conduct to that of engaging in rival union activity or openly soliciting defections from the union (Bd. Br., pp. 16, 20), and justifying Price's discipline by Local 4028, clearly illustrates the scope of the Board's thinking. Apparently, not only would the Board repeal the "right to refrain" guaranteed by Section 7, but it seemingly would also eliminate the right to dissent. It would follow that in the Board's opinion the prime goal of the Act is the union's continued bargaining status or existence.

III. The Board's Theory That the Act Protects "Union Disciplinary Action Aimed at Defending Itself From Conduct Which Seeks to Undermine Its Very Existence" Misinterprets the Statutory Language, Misconceives the Plainly Stated Intent of Congress, and Subverts the Policy of the Act.

As this Court is well aware, Section 7 of the Act states explicitly and unequivocally that employees have the "right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection. . ." The same section makes it explicit that

employees "shall also have the right to refrain from any or all of such activities. . . ." These are the basic statutory rights of employees situated as Price is herein. To protect these rights Congress, in Section 8, placed certain restrictions on employer and union conduct. And, to provide the machinery for the exercise of employee free choice guaranteed by Section 7, a secret ballot election system was established in Section 9.

The emphasis on employee rights has been consistent since the enactment of the Wagner Act in 1935. In the landmark decision which upheld the constitutionality of that Act, *N.L.R.B. v. Jones & Laughlin Steel Corp.,* 301 U. S. 1, the Court said (301 U. S. at 32):

> Thus, in its present application, the statute goes no further than *to safeguard the right of employees* to self-organization and to select representatives of their own choosing for collective bargaining or other mutual protection without restraint or coercion by their employer. That is a fundamental right. (Emphasis supplied.)

The two major amendments to the Wagner Act, the Labor-Management Relations Act of 1947, and the Labor-Management Reporting and Disclosure Act of 1959, underscored the protection of employee rights and broadened them to include protection from activities of labor organizations. The Congressional policy was succinctly stated by Board Member Brown in his remarks to the State Bar of Texas, July 5, 1962, when he said:

> Basic to the entire statute and pervading all its provisions is the right of employees freely to select a bargaining representative.

Neither the original Wagner Act, the 1947 amendments, nor the 1959 amendments contain any language whatsoever which is directed at protecting the status of labor organizations as such. The rules and policies developed by the courts and the Board in interpreting the Act, which sometimes appear to have this goal, are nothing more than the shadows cast by the body of the rights guaranteed employees by the statute. In sum, the statutory language contains no support for the concept that a union's right of existence is guaranteed by the Act; instead, the union's existence depends entirely on the uncoerced desires of the employees who constitute its membership.

The Board, however, would take a specific restriction on union conduct set forth in Section 8 and pervert its meaning to create a union "right of existence"—something which Congress did not see fit to include in the statute. Thus, the Board, because of the proviso to Section 8(b)(1)(A), would convert that Section, which makes it an unfair labor practice for a union "to restrain or coerce employees in the exercise of the rights guaranteed in Section 7 . . .," into an implicit union "right of existence" superior to the express employee rights "to refrain" and to invoke the Act's processes in support thereof.

It is in this context that the legislative history of Section 8(b)(1)(A) and its proviso must be considered. That history has been discussed extensively

by the parties and need not be repeated here. (See Pet. Reply Brief, pp. 5-11; Bd. Br., pp. 7-15; Int. Br., pp. 5-6, 15-16.) In essence, the Board and the Intervenor argue that Congress did not intend to regulate traditional union power to discipline its members for a violation of reasonable union rules. However, as shown by Petitioner in his reply brief (pp. 5-11), such an argument is inconsistent with the Board's own approach in the *Skura* type situation, and neither accurately reflects the legislative history nor is supported thereby.

Even the Board would not stretch the Section 8(b)(1)(A) proviso to permit disciplining members for violating *unreasonable* union rules; but a reasonable rule, according to the Board, is one which is plainly necessary to preserve the very existence of the union (Bd. Br., p. 16). No doubt a rule fitting this standard is reasonable to the union. But, as already shown, it is not the union which the statute protects. Instead, it is the right of the employee to rid himself of that union which is protected.

Finally, it should be noted that the Board's ruling with respect to Price is completely at variance with the current judicial concern for the individual in his relations with the broader group of which he is a part. Such cases as *Escobedo v. Illinois,* 378 U. S. 478, and *Miranda v. Arizona,* ..........U.S.............., 16 L.Ed. 2d 694, 34 U. S. Law Week 4521, show clearly that group control over the individual is not to be tolerated if the price is the subordination, or obliteration, of individual rights. True, *Escobedo* and *Miranda* involve

the individual and his relations with society as a whole. But the governing principle should be the same where the strength of the individual is pitted against the power of the labor union group—especially since this involvement is not necessarily the result of voluntary choice.

Unions owe much to their image as democratic institutions, both from the standpoint of favorable legislative treatment and acceptance by members of the working force. If they deserve such status and if that status is to continue, it is unthinkable that unions should be granted the right to suppress dissent. For the Board not only to permit but, through its inconsistent and inaccurate reading of the statute as shown above, to encourage union suppression of the membership's right of dissent, is shocking indeed.

Conclusion

Today millions of employees are bound by collective-bargaining agreements which require union membership as a condition of employment. If the Board's decision in this case is permitted to stand, those employees will be vulnerable to fines or suspension if they make any effort to seek representation by another union or to work without a union. Their right to dissent will be muted. Their agents will become their masters.

In short, the Board will have abrogated its basic function and, by its own rule, will have bestowed on a private organization the privilege and power to

nullify public law. Accordingly, the Board's order dismissing the complaint against Local 4028 should be reversed.

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Dated: July 25, 1966.

CERTIFICATE

The undersigned certifies that he has examined the provisions of Rules 18 and 19 of the Court and in his opinion the tendered brief conforms to all requirements.

KENNETH C. MCGUINESS,
Attorney for Labor Policy Association, Inc.

No. 20655

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Retail Clerks Union, Local 770, Affiliated with Retail Clerks International Association,

Petitioner,

vs.

National Labor Relations Board,

Respondent.

BRIEF OF PETITIONER.

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TABLE OF AUTHORITIES CITED

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vs.

NATIONAL LABOR RELATIONS BOARD,

Respondent.

BRIEF OF PETITIONER.

JURISDICTIONAL STATEMENT.

This is a Petition for Review of a Decision and Order of the National Labor Relations Board, issued December 17, 1965, dismissing a consolidated complaint filed by the General Counsel of the National Labor Relations Board on September 24, 1964. Petitioner herein filed charges and amended charges with the Regional Director of the Twenty-first Region of said Board between March 13 and September 18, 1964, which led to the issuance of the complaint. This Petition for Review is brought pursuant to Section 10(f) of the Labor Management Relations Act of 1947, as amended 1959, 29 U.S.C. Section 160(f), 48 Stat. 926, c. 426. Petitioner is aggrieved by the said Decision and Order in that it has, by dismissing the complaint in its entirety, denied in whole the relief sought by petitioner in its charges and amended charges and in the complaint which issued thereon.

STATEMENT OF THE CASE.

The following factual statement of the activities of the parties in the case before the National Labor Relations Board is taken, in its entirety, from the Reporter's Transcript of Testimony and exhibits presented to the Trial Examiner and specifically, where such testimony and/or exhibits were in conflict with other testimony and/or exhibits, this statement has been drawn exclusively from the testimony of those witnesses produced on behalf of the parties whose activities are described or from those findings of fact made by the Trial Examiner which were adopted by the National Labor Relations Board in its Decision and Order. [63]

For brevity, petitioner will hereinafter sometimes be referred to as "the Retail Clerks" or "Local 770", the National Labor Relations Board as "the Board," the respondent employers, the Boy's Markets, Inc., Von's Grocery Company, and Food Employers Council, Inc. as, respectively, "Boy's", "Von's" and "the Council." Intervenor Los Angeles Joint Executive Board of Hotel & Restaurant Employees & Bartenders Unions, AFL-CIO, will be referred to as the "Culinary Union."

The pleadings of the parties and the decisions of the Trial Examiner and of the Board are all contained in Volume I of the certified Transcript of Record before the Court. References herein to these materials will be to the Arabic-numbered page within the said Volume I. The Reporter's Transcript of Testimony received by the Trial Examiner will be found in Volumes II A, II B, and II C. The said Reporter's Transcript is paginated serially throughout these three volumes and citations to such testimony will be by arabic page number preceded by the letters "R.T.". References to the

exhibits admitted into evidence by the Trial Examiner will be according to the tables of exhibits found at Reporter's Transcript pages 3-4, 157 and 330, all of which have been designated by the petitioner for inclusion in the certified record before this Court.

A. Historical Background.

Boy's and Von's are California corporations having their principal offices in Southern California and both engaged in the operation of chains of retail stores and supermarkets in Los Angeles County, California. [30] The Council is a non-profit California corporation composed of employer-members engaged in the retail food market business in Southern California. Since its inception in 1941, the Council has bargained collectively for its members with labor unions in Southern California and has negotiated master collective bargaining agreements with those unions, including Local 770 of the Retail Clerks. Boy's, Von's and the Council are all engaged in business affecting commerce within the meaning of Section 2(6) and (7) of the Labor Management Relations Act of 1947, as amended 1959, 29 U.S.C. 152(6) and (7), 61 Stat. 137, C. 120, Title I, Section 101. [31] At all times material to this case, Boy's and Von's were, and are, members of the Council.

Since 1941, the Council has negotiated on behalf of its members collective bargaining agreements with Local 770. In recent times these contracts have been of five year duration. At the time of the events related below, such an agreement was in effect covering the period January 1, 1959, through March 31, 1964. This agreement covered work performed in the "retail food, bakery, candy and general merchandise industry." [31]

Over the years several members of the Council began merchandising prepared foods as described in the decision of the Trial Examiner:

> "In recent years, various supermarkets in the Los Angeles area have established in their stores counters which sell, at retail, food which is designed for consumption either at or soon after the time of purchase. In certain cases, the consumption of food takes place within the store itself or right outside the store in a patio area. In other cases the food is cooked or prepared at the counters and wrapped for customers who take it from the premises for consumption elsewhere. In either event, the food appears to be intended for consumption sooner than the other items sold at the supermarket.
>
> "The employers and union representatives who are involved in this controversy have established a certain parlance in describing the aforesaid operations. Thus, an operation which handles food for consumption on the premises of the supermarket is called a 'snack bar,' and operations which handles (sic) food for consumption off the premises of the supermarket is called a 'take-out food' operations (sic) or 'prepared food' operations (sic) and an operation which prepares both types of food is called a 'combination' operation." [31]

As these operations became prevalent in the retail food markets the unions involved, the Retail Clerks and the Culinary Workers discussed the functions of the work being performed in the contexts of their respective jurisdiction and organizational campaigns to represent the employees in the snack bars and prepared foods sections. [R.T. 303-304.] Both in terms of jurisdiction and of

the work within the Clerk's bargaining unit as defined in their labor agreements with the Council, the Clerks early arrived at the conclusion that those functions related to the preparation, maintenance and sales of food to be purchased and consumed off the premises of the market were both traditional functions performed by members of the Clerks and/or work described in the collective bargaining agreement. As a matter of union jurisdiction and as a matter of representation and the right to bargain collectively for such employees, the Clerks made this position known to, respectively, the Culinary Union and the employers. [R.T. 303-306.]

In January, 1963, the Clerks and the Council commenced bargaining sessions intended to lead to a new five-year contract when the current one would expire in March of the following year. In many of the 79 such sessions which occurred through and including March 14, 1964, proposals and counter-proposals were made regarding recognition of the Clerks as collective bargaining representatives of persons employed in prepared take-out food sections or combination food sections, their wages and fringe benefits. These negotiations and proposals are detailed by the Trial Examiner. [33-38] The ultimately concluded and executed labor agreement covering the period April 1, 1964, through March 31, 1969, at Article VI detailed wage rates for such operations. [38] This new agreement excluded from the purview of work performed by Retail Clerks "persons presently under a collective bargaining agreement with the Culinary Workers Union, or persons employed in a complete restaurant." [38] At this point in time Boy's operated snack bar/prepared food facilities in four of its markets. [99] Similarly, Von's operated such facilities in four of its stores. [43]

B. The Activities of the Boy's Markets, Inc.

At its Crenshaw market, Boy's operates a snack bar and take out food section. [R.T. 32-34, 76-77, 86.] This was a combined operation employing some eight persons. [39] In late 1963, the Clerks secured the signatures of five of these employees to authorization cards requesting that the Clerks represent them in collective bargaining. [39] Three officials of the Retail Clerks testified that they informed the personnel manager of Boy's that a majority of the employees in the snack bar of the Crenshaw store had signed authorization cards, that it was a combination operation being included in the current Clerks-Council contract negotiations and that the personnel manager promised them that she would honor no other claims of representation or requests to collectively bargain from another union, agreeing to await the outcome of the pending negotiations. [R.T. 138-144, 179-182, 308-309.] Mrs. Ida Freed, the Personnel Manager, in her testimony denied these allegations. However, the Trial Examiner expressly found that Mrs. Freed's testimony was not creditable, that it was not motivated by truthfulness, but by the interest of her employer, and that the testimony of the officials of the Retail Clerks was truthful and entitled to be given credence. [41] The Board, in its decision, has not reversed this finding.[1]

At all times mentioned the Culinary Union operated in Los Angeles according to self-imposed geographic

[1]The decision of the Board recites [64] that, when the Clerks asserted their representative claim, Boy's refused recognition "contending that the snack bar employees at all four of its stores should first be recognized." This finding is not supported by the record. Ida Freed testified that no representative claims were made [R.T. 230] and the officials of the Retail Clerks, as indicated above, testified that they received no such response.

jurisdictional limits which included only the Crenshaw store of the Boy's Markets. [R.T. 99.] In late 1963 a representative of that union secured authorization cards from many of the employees at the Crenshaw location purporting to have the same effect as those given to the Retail Clerks. The record does not reveal the exact number of such cards obtained by the Culinary Union but it does reflect that the five employees who signed cards for the Clerks also signed cards for the other union.

The Culinary Union made known to Mrs. Freed its claim of representation in the Crenshaw store and she responded to them that their claim of representation of a majority would not be considered for verification until Culinary could prove that it represented a majority of the snack bar employees in all four locations. [R.T. 99.] The Culinary Union complied with this request and in early January, 1964, submitted to a firm of certified public accountants the cards it had collected to be compared with a list of employees submitted to the accountants by Boy's. On January 14 the accounting firm reported to Boy's that 17 of the 21 employees working in the snack bar locations had executed valid authorization cards. [41-42] Sometime thereafter a five-year collective bargaining agreement containing a union security clause was executed between Boy's and the Culinary Union. If there were any negotiations between the company and the union in arriving at this collective bargaining agreement such negotiations were not made a part of this record. The employees at the Crenshaw store testified that they were not informed of the execution of the agreement until April 3, 1964, two months after the effective date. At the same time they

were informed of the union security clause which was the only clause of that contract ever explained to them in detail. [R.T. 37-42, 80-82, 88-89.] According to the testimony of Mrs. Freed, an unsigned collective bargaining agreement was sent to Boy's by the Culinary Union, was signed and returned to the union by the company without comment. [R.T. 226-227.] Despite the fact that Mrs. Freed knew her company was a member of the Food Employer's Council, that it was negotiating with the Retail Clerks and that these negotiations included discussions of the snack bar functions [R.T. 227-228] Mrs. Freed did not notify the Council of the execution of the culinary agreement until two months after it had been signed. [R.T. 333.]

C. The Activities of Von's Grocery Company, Inc.

As stated above, at the time that is material to this case, Von's had four of its retail markets furnishing snack bar and take out food services to its customers, generally in combination form. Respondent's Exhibits 1 and 2 [R.T. 161-162] constitute an exchange of correspondence between the Retail Clerks and the President of Von's in which the union made the claim that employees selling food for consumption off the market premises were performing work within the recognition and bargaining unit clauses of the 1959-1964 Retail Clerks-Council agreement and that both the wage and union security provisions of that agreement should apply to them. Von's replied that it disagreed with the union's contention. Shortly after this exchange of correspondence, the Clerk-Council negotiations for a successor agreement commenced. During the succeeding months numerous proposals and counter-proposals crossed the bargaining table between the Clerks and the

Council in which both parties sought to define the work activities which would be allocated to the Clerks in their new agreement and the wage rates to be paid for such work. These proposals are detailed in the decision of the Trial Examiner. [33-38]

A comparison of the first letter of the Retail Clerks to Von's [Resp. Ex. 1] dated November 23, 1962 [R.T. 161] and the language of the final Clerks-Council agreement of March 14, 1964, discloses that the union consistently sought to include within its bargaining unit work performed in handling foods to be consumed off the premises of the market, whether in a service delicatessen or in a combination facility. This position was, similarly, communicated to the Culinary Union in an attempt to settle jurisdictional lines.

However, settlement was not reached because the Culinary Union took the position "that if they sold any food for consumption on the premises—even a cup of coffee—that it was all going to be the Culinary's jurisdiction." [R.T. 304.]

While the Clerk-Council negotiations described above were continuing, and in January, 1964, the Culinary Union wrote to Kenneth Doyle, Von's Director of Industrial Relations and Personnel, claiming to represent a majority of the employees of Von's working in the snack bar and take out food facilities in the four Von's stores which had such services. Doyle referred the correspondence to the Council for handling [R.T. 168-180] and the Council referred it to its Labor Relations Associate, Melvin Dauber. [R.T. 335.] Mr. Dauber arranged to have the Culinary Union's proof of representation checked in the same manner as Boy's used, reported to Von's the results of this card check and ad-

vised Von's to enter into negotiations with the Culinary Union sometime shortly after January 22, 1964. [R.T. 335-336.] Thereafter, Von's executed a collective bargaining agreement containing a union security clause in February of 1964 "after . . . consulting and meeting and discussing the contract. . . ." [R.T. 170.]

Mr. Doyle testified that when he transmitted the demand of the Culinary Union for recognition to the Council that John Bacon was the first official there to deal with the matter. [R.T. 170.] Mr. Bacon was one of the negotiators in the Council-Clerks bargaining sessions. [R.T. 239, 399.] Mr. Bacon turned the matter over to Mr. Dauber (who appeared in the proceedings before the Board in this case for the Council). [R.T. 6.] Mr. Dauber testified that he did not participate in the Clerk Council negotiations [R.T. 334] that the Council kept its members informed of the progress in these negotiations [R.T. 344-345] but that he himself had not been kept apprised of these particular discussions with the Retail Clerks and therefore, did not know the various proposals and counter-proposals set forth above. [R.T. 345-346.]

D. The Proceedings in This Case.

The attorneys for the Retail Clerks, upon notification that Boy's and Von's had signed labor agreements with the Culinary Union, filed with the Regional Director for the Twenty-first Region of the Board, certain charges and amended charges [3-6] alleging that Boy's, Von's and the Food Employer's Council had violated Sections 8(a)(1), 8(a)(2) and 8(a)(3) of the Labor Management Relations Act of 1947 as amended in 1959, 29 U.S.C. 158(a)1, 2 and 3 and that

the signing of such an agreement during a period in which another labor union, namely the Clerks, had presented to the employers a real question concerning representation of the employees involved, interfered with, restrained and/or coerced said employees in the exercise of their rights guaranteed to them under Section 7 of the Act, 29 U.S.C. 157, in violation of Section 8(a)(1); and provided illegal assistance to the Culinary Union in violation of Section 8(a)(2). It was also charged that the respondents enforced or attempted to enforce the union security provisions of the Culinary contract by threatening the discharge of employees for failure to join the Culinary Union, in violation of Section 8(a)(3).

After an investigation of these charges conducted by the Regional Director of the Twenty-first Region, a complaint was issued by him incorporating these allegations on September 24, 1964. [7-14] The case was heard before Trial Examiner Howard Myers on November 24-27, 1964, and he rendered his decision on June 18, 1965 [29-50], finding that respondents Boy's and Von's had violated Sections 8(a)(1) and 8(a)(2) of the Act in executing the agreements and that respondent Council had similarly violated the said Sections in advising and/or ratifying such execution while serving as the collective bargaining agent for the other respondents. The Trial Examiner did not find that the respondents, or any of them, had violated Section 8(a)(3) by maintaining or enforcing the union security provisions of the contracts. In this regard the evidence showed that only one employee of the Boy's Markets had complied with the clause by joining the Culinary Union and that that employee had paid only the sum

of $5.00. [R.T. 408-409.] While the General Counsel for the Board filed a cross-exception to the decision of the Trial Examiner for his failure to find on the 8(a)(3) violation, petitioner before this Court makes no argument concerning such violation since it must first be established that, as found by the Trial Examiner, the respondents illegally assisted the Culinary Union by granting it recognition and executing labor agreements with it, and since the amount of damages suffered by any of the employees is *de minimis*.

STATUTES INVOLVED.

The Labor Management Relations Act of 1947, as Amended by Public Law 86-257, 1959, Provides in Pertinent Part as Follows:

A. SECTION 7 (29 U.S.C. Section 157) PROVIDES:

"Employees shall have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection, and shall also have the right to refrain from any or all of such activities except to the extent that such rights may be affected by an agreement requiring membership in a labor organization as a condition of employment as authorized in Section 8(a)(3) (Section 158(a)(3)) of this title.

B. SECTION 8(a) (29 U.S.C. Section 158(a)) PROVIDES IN RELEVANT PART:

"(a) It shall be an unfair labor practice for an employer—

(1) to interfere with, restrain or coerce employees in the exercise of the rights guaranteed in section 7;

(2) to dominate or interfere with the formation or administration of any labor organization or contribute financial or other support to it;

Provided, That subject to rules and regulations made and published by the Board pursuant to section 6, an employer shall not be prohibited from permitting employees to confer with him during working hours without loss of time or pay;"

SPECIFICATION OF ERRORS RELIED ON.

1. The National Labor Relations Board erred in finding, upon the facts of this case that no real or colorable claim of representation had been presented to the respondents by the Retail Clerks Union.

2. The National Labor Relations Board exceeded its authority and abused its discretion in finding that petitioner's claim for recognition by the Food Employer's Council was unsupportable in the face of unrebutted evidence to the contrary.

3. The National Labor Relations Board exceeded its authority and abused its discretion in finding that the Food Employer's Council was not authorized by the Boy's Markets, Inc. and Von's Grocery Company to bargain with petitioner on their behalf, in the face of unrebutted evidence to the contrary.

4. The National Labor Relations Board exceeded its authority and abused its discretion in holding that petitioner's claim to represent certain employees was a part of another and larger claim of representation involving other, distinct employees.

5. The National Labor Relations Board exceeded its authority and abused its discretion in failing to apply its doctrine established in *Mid-West Piping,* 63 N.L.R.B. 1060, to the facts of the instant case.

QUESTIONS PRESENTED.

1. Did the Retail Clerks present to the respondents a genuine question concerning representation?

2. Was the Food Employer's Council authorized by its members, Boy's and Von's to represent them in bargaining for their snack bar and take out foods employees?

3. Did the Retail Clerks present to the respondents a genuine question concerning representation of the employees of Boy's Markets' Crenshaw store alone?

4. Should the Board have required that, before these respondents deal with either labor organization, an election be held among the affected employees pursuant to Section 9 of the Labor Management Relations Act?

SUMMARY OF ARGUMENT.

The National Labor Relations Board, in pursuance of its obligations to prevent the illegal assistance of one union over another by an employer, has, consistently since 1945, ruled that where two such unions have submitted to the employer a real claim of representation of the employees, such employer is not free to decide which to recognize and bargain with, but rather must maintain a strict neutrality as to the competing unions, unless and until one of them shall have been certified as the collective bargaining representative by the Board after a secret ballot election.

In the instant case two such real claims of representation were presented to the employers who chose to recognize and bargain with one of the unions without requiring its certification, despite the fact that the collective bargaining agent of the employers was, during the same period of time, purporting to grant recognition to, and to bargain with, the other union.

Petitioner here asked the Board below to apply its *Mid-west Piping* rule, quoted *supra,* to give the employees affected an opportunity to cast a secret vote whether they wish to be represented by either of the competing unions, or by no union. The Board has refused to apply the rule and has validated a five year collective bargaining agreement containing a compulsory union membership clause without these employees having had the opportunity to be heard at all. The Board has done so under the guise of deciding that petitioner, one of the competing unions, made no "real" or "colorable" claim to represent these employees despite clear evidence to the contrary.

Unless the Board is directed to apply its *Mid-west Piping* doctrine a grave injustice shall have been done these employees and their rights to self-organization and to form, join or bargain collectively through a union of their own choosing, guaranteed to them under the Labor Management Relations Act, shall have been denied.

ARGUMENT.

I.

The Retail Clerks Presented a Real Question Concerning Representation of the Employees of Von's and Boy's.

The General Counsel in his case before the Trial Examiner, indicated that the remedy he was seeking was that called for by the Board's decision in *Midwest Piping and Supply Company, Inc.*, 63 N.L.R.B. 1060, 17 L.R.R.M. 40 (1945). In that decision the Board held that where an employer is faced with two real and conflicting claims of representation of his employees by different labor unions, he is not free to arrogate to himself the decision of which union he shall recognize and bargain with. The Board held that:

> "Under such circumstances, the Congress has clothed the Board with the exclusive power to investigate and determine representatives for purposes of collective bargaining. In the exercise of this power, the Board usually makes such determinations after a proper hearing and at a proper time by permitting the employees freely to select their bargaining representatives by secret ballot." (63 N.L.R.B. at page 1070.)

The remedy prescribed for the violation of this rule is an order of the Board requiring that the employer cease and desist from recognizing or bargaining with, or maintaining or enforcing any labor agreement with, the union which it has illegally assisted unless and until such union is certified as the bargaining representative of the employees by the National Labor Relations Board pursuant to Section 9 of the Act.

One reason for the *Mid-west Piping* rule is set forth by the Board in a later decision, *Sunbeam Corporation,* 99 N.L.R.B. 546, 30 L.R.R.M. 1094 (1952):

> "This Board has also long recognized that authorization cards are a notoriously unreliable method of determining majority status of a union as a basis for making a contract where competing unions are soliciting cards, because of the duplications which then occur." (99 N.L.R.B. at 550-551.)

While two early decisions of the Courts of Appeal for the Fourth and the Sixth Circuit have failed to apply the *Mid-west Piping* rule, *N.L.R.B. v. Corning Glass Works,* 204 F. 2d 422, 32 L.R.R.M. 2136 (C.A. 1, 1953) and *N.L.R.B. v. Indianapolis Newspapers, Inc.,* 210 F. 2d 501, 33 L.R.R.M. 2536 (C.A. 6, 1954), the doctrine is now accepted by the Courts of Appeal. See *e.g., N.L.R.B. v. National Container Corporation,* 211 F. 2d 525, 33 L.R.R.M. 2651 (C.A. 2d, 1954); *St. Louis Independent Packing Company v. N.L.R.B.,* 291 F. 2d 700, 48 L.R.R.M. 2469 (C.A. 7, 1961). The obligation of the employer is defined in the latter case as one of "neutrality once a real question of representation arose." (291 F. 2d at page 704.)

The principle has been considered with approval by this Court in *N.L.R.B. v. Knickerbocker Plastic Company,* 218 F. 2d 917, 35 L.R.R.M. 2420 (C.A. 9, 1955).

An essential element, as correctly stated by the Board in its decision below, is that there must be two or more "genuine," "real" or "colorable" claims of representation made. In its decision in the instant case, the Board indicated its opinion that the Clerk's claim was "clearly unsupportable and not cognizable as a colorable claim." [66] Because this finding of fact if properly sustained,

prevents the application of the *Mid-west Piping* doctrine, the central and most crucial issue upon this petition for review is whether or not the evidence presented to the Trial Examiner and before this Court can sustain such findings. As provided in Section 10(c) of the Act, 29 U.S.C. 160(c), if the opinion of the Board is sustained by the "preponderance of the testimony" it shall have been entitled to dismiss the complaint as it did here.

A. The Authorization Cards Secured by the Retail Clerks.

The decision of the Board states that the Clerks secured authorization cards from the employees of the Boy's Crenshaw store, but did not secure them from any other employees of either employer. The question thus presented here is whether or not a "real" or "colorable" claim of representation must be accompanied by the obtaining of such cards from a majority of the employees affected.

The Board characterizes the claims of the Clerks made to these two employers as resting "essentially on (the Clerk's) multiemployer contract with the Council," [66] and the Board further finds that this contract did not cover "snack bar employees" in light of its decision in 1963 in *Piggly-Wiggly Company*, 144 N.L.R.B. 708, 54 L.R.R.M. 1119.

As to the first contention that the Clerks did not secure authorization cards it is established Board precedent that such a showing of interest may be based, not necessarily upon cards evincing employee interest, but also upon the pre-existing multiemployer contract. See *W. Horace Williams Company*, 130 N.L.R.B. 223, 47

L.R.R.M. 1337 (1961); *Pacific Tankers, Inc.*, 81 N.L.R.B. 325, 23 L.R.R.M. 1361 (1949).

In answer to the second contention, that the Clerks-Council contract was expressly determined by the Board not to cover "snack bar employees" petitioners respectfully direct the attention of the Court to the Board's decision in the *Piggly-Wiggly* case, *supra*. The facility in operation there was described in the opinion as follows:

> "The snack bar prepares food for on-premises consumption. It is located in front of the checkstands, at the front of the store. (Footnote omitted) It consists of an inside counter, where food is prepared and served and an adjacent outside patio for table service during clement weather. All purchases made at the snack bar are paid for there . . ."
>
> * * *
>
> "The snack bar employees currently consist of a fry cook and seven waitresses . . . the fry cook prepares food and occassionally waits on customers. The waitresses assist the fry cook and wait on customers. No other employees in the store perform this type of work." (144 N.L.R.B. at 710-711.)

It should be noted that the *Piggly-Wiggly* decision arose on a representation petition under Section 9(c) of the Act, 29 U.S.C. 159(c), filed by the Culinary Union. Petitioners here were permitted by the Board to intervene in that case, their showing of interest consisting of the 1959-1964 Clerks-Council contract and "upon the basis of independent evidence of a showing of interest in the unit sought." (144 N.L.R.B. at 709, Footnote 2.) Upon the evidence before it, as set forth

above, the Board found that the old Clerks-Council contract did not cover the employees working in such a pure snack bar. The Board further found that while the Piggly-Wiggly Company operated snack bars in two of its stores, nevertheless, the appropriate unit in which to conduct an election was the snack bar employees within each store and an election was directed between the Clerks and the Culinary Union. (144 N.L.R.B. at 712.)

The Board did not have before it in that case the more complicated question presented here: the operations of Von's and Boy's which combine the preparation and sale of food in part for in-store consumption and in part for home or outside consumption. Furthermore, it is not at all clear that the *Piggly-Wiggly* decision would be followed in this case inasmuch as the finding of a separate store unit was based upon a presumption in the following language at 144 N.L.R.B. at 710:

> "In *Joseph E. Seagram & Sons, Inc.* (101 N.L.R.B. 101) the Board set forth its policy, which it has since followed, [Footnote omitted] that an esablished multiemployer or multiplant bargaining pattern as to certain categories of employees is not controlling with respect to other categories of employees as to whom there is no bargaining history, and separate, single employer or single plant units of the unrepresented employees are presumptively appropriate. Also, where, as here, *no unions seek to represent the unrepresented employees on a broader basis*,[8] and there is no multiemployer bargaining pattern for such employees, the Board will find a separate unit of employees in a single plant appropriate. [Footnote omitted] (Emphasis added.) * * *

"[8]It is noted that the intervenor has made no showing in, nor does it seek to represent a broader snack bar unit. It merely asserts that the petition should be dismissed because it does not seek a broader unit."

The contention of the Board in this case, that the Clerk's claim of representation is not "colorable" because it secured authorization cards in only one store, by its own reasoning does not square with the *Piggly-Wiggly* decision in which it found such a single location to be an appropriate one for election and bargaining even though there existed more than one such unit within the same company. By a parity of reasoning between the two cases, the Board should have found in the instant decision that a valid claim for representation had been made within a presumptively appropriate single plant unit. Further, the Board should have considered, upon the record before it, whether the different operations of Boy's and Von's from those of *Piggly-Wiggly*, raised a multi-plant unit question, the determination of which the employer may not arrogate to itselt under the *Mid-west Piping* doctrine.

But the major distinction between this case and *Piggly-Wiggly* is the simple fact that the contract relied upon in part by the Clerks in *Piggly-Wiggly* is not the same contract relied upon here. The *Piggly-Wiggly* decision, was rendered September 19, 1963, and referred to the Clerks "current contract." (144 N.L.R.B. at 709.) The contract which was negotiated between the Clerks and the Council and signed March 14, 1964, unlike the prior agreement contains a grant of recognition by the employer to the union covering work performed within food markets generally subject to the

relevant exclusion of persons "presently under a collective bargaining agreement with the Culinary Workers Union . . ." and also contains specific provisions as to wage rates which will apply depending upon the type of snack bar and prepared foods operation in the store. [38] By contrast the previous Clerks-Council agreement covered "grocery and produce department work" only. (144 N.L.R.B. at 709.)

B. Did Boy's and Von's Authorize the Council to Represent Them in Bargaining for Such Employees?

The Board held that "it does not affirmatively appear" from the record that such was the case. [66] Petitioners respectfully contend that the Board erred in this determination and that the record clearly indicates such representation in the following ways:

1. The Boy's Markets, Inc.

Lois McKinstry, Executive Administrator of Local 770 of the Retail Clerks, testified to a conversation she had with Ida Freed, Personnel Manager of Boy's, as follows:

> "To the best of my recollection, I said that we could present the proof of representation or the authorization cards; however, we were in negotiations. And she agreed that, while the Culinary had contacted the people, there would be no contract signed since we were in negotiations and her company was being represented by the Food Employer's Council." [R.T. 309.]

Melvin Dauber, Labor Relations Associate of the Food Employer's Council, represented Boy's and Von's

in the proceedings before the Board, announcing his appearance as follows:

> "Mr. Dauber: appearing for Food Employer's Council, Von's Grocery Company, The Boy's Markets, the Food Employer's Council, Inc. by Melvin Dauber, 2599 South Flower, Los Angeles 7." [R. T. 6.]

Mr. Dauber, called as a witness by the General Counsel, testified that the President of the Boy's Markets and the Executive Vice President of Von's were most probably reported to on a regular basis by the President of the Council, Robert K. Fox, as to the status of negotiations with the Clerks. [R.T. 344-346.]

Ida Freed, Personnel Manager of Boy's, testified that the Food Employer's Council, as agent for the Boy's Markets, negotiated contracts on behalf of Boy's and that she was aware of the continuing negotiations between the Council and the Clerks occurring in 1964. [R.T. 227-228.]

The existence of this authorization and agency, in addition to the evidence presented was admitted by the parties. Counsel for the Culinary Union propounded the following questions to a witness testifying on behalf of the Clerks:

> "Do you know whether Local 770 was asking the Food Employer's Council, as the agent of all these markets, including Boy's, to recognize it as the collective bargaining representative for all employees other than those covered by the Meat Cutters Union who worked within the four corners of the store?" [R.T. 144-145.]

2. Von's Grocery Company.

In addition to the fact that Von's was represented in the proceeding below by the Food Employer's Council [R.T. 6, *supra*] and that the evidence submitted on its behalf was defined by Mr. Dauber as, for example, "respondent Food Employer's and Von's No. 1," [R.T. 161] Robert J. Whittaker, Personnel Assistant for Von's [R.T. 102], testified that "in most of these matters we are represented by the Food Employer's Council." [R.T. 119.]

Kenneth L. Doyle, Director of Industrial Relations and Personnel for Von's [R.T. 160] testified that Von's had, in existence, at all times material, labor agreements with the Culinary Union covering some of its operations, and that when he received Culinary's demand for recognition in the Crenshaw store, he referred it to the Food Employer's Council. [R.T. 167-168.]

The following exchange took place between the witness, Mr. Doyle, and the Assistant General Counsel:

> "Q. (By Mr. Evans): And did Von's execute a Culinary agreement in February 1964 as a result of advice given by the Food Employer's Council?
>
> A. After our consulting and meeting and discussing the contract, yes." [R.T. 170.]

Additionally, Mr. Doyle testified that it was the Council and not the company which conducted the card check leading up to the advice of the Council that Von's recognize and bargain with the Culinary Union. [R.T. 168-169.]

The Clerks-Council agreement executed on March 14, 1964, which was the culimination of 15 months of nego-

tiations contained a specific agency clause in Article XIV, B:

"* * *

3. *Food Employers Council, Inc.* The Union hereby recognizes the Food Employer's Council, Inc. as the authorized representative of its members in matters pertaining to the negotiation and administration of this Agreement. In the event of a dispute, it shall be the duty of the Employer to notify the Food Employers Council, Inc. of the existing dispute if said Employer desires said Food Employers Council, Inc. to represent it in the dispute. Should a grievance or dispute be settled between the Union and any Employer signatory to this Agreement without the participation of the Food Employers Council, Inc. and if in such settlement, an interpretation of any language or phrase of this Agreement is involved in order that such settlement be reached, the Union shall, within ten (10) days of such settlement notify Food Employers Council, Inc., in writing of the dispute, the language or the phrase interpreted, the settlement reached, and the date of such settlement. Should the Union fail to notify the Food Employers Council, Inc., as set forth above, the fact of settlement and the interpretation of the language or phrase of the Agreement involved in the settlement shall not be used in evidence for any purpose whatsoever. No such settlement or interpretation shall be binding upon the Food Employers Council, Inc. or its members unless the Council or its members thereof participated in arriving at such settlement or interpretation."

For these reasons, it is the petitioner's contention that the record amply demonstrates a complete delegation of the duty of collective bargaining from these respondent employers as principals to the Food Employer's Council as agent and these employers looked to the Council for bargaining, advice, and contract administration with the Clerks, the Culinary Union, the Teamsters, the Meat Cutters, and any other unions that might claim representation of their employees.

In addition, Volume I of the certified Transcript before this Court contains correspondence from Mr. Dauber, dated November 2, 1964, in which he set forth his request for a continuance of the hearing before the Trial Examiner upon the ground that, as "the authorized representative for respondents Boy's Markets and Von's Grocery Company, we have requested this postponement because of critical negotiations with Southern California Retail Meat Cutters Unions." [21-22] This request is reiterated in a telegram appearing at pages 24 and 25 and in a letter, dated November 21, 1964, in which the additional allegation is made that Mrs. Ida Freed of Boy's Markets was "a member of the the (sic) industry negotiating committee in these critical meat cutter's negotiations." [26-27]

Finally, the General Counsel's complaint alleged that Boy's and Von's were, at all times material, members of the Council. (9, Par. 2[e].) Neither the answer of the Culinary union (15-16) nor that of the Council, Boy's and Von's [19-20] admit or deny these allegations. Pursuant to the Rules and Regulations of the National Labor Relations Board, Series 8, as amended, Section 102.20, the allegations in the complaint are deemed admitted. The answer submitted on behalf of

the council, Boy's and Von's is signed by Mr. Dauber on behalf of the Council, by the Secretary-Treasurer of the Boy's Markets and by the Senior Vice President of Von's Grocery Company. [20]

This question of the status of the Council as agent for Von's and Boy's in the Clerk negotiations should have been determined by the board pursuant to Section 2 [13] of the National Labor Relations Act, 29 U.S.C. 152 [13] which provides as follows:

> "In determining whether any person is acting as an 'agent' of another person so as to make such other person responsible for his acts, the question of whether the specific acts performed were actually authorized or subsequently ratified shall not be controlling."

II.

The Council-Clerks Labor Agreement Did Not Expressly Exclude the Snack Bar Employees of Boy's and Von's.

The reverse of this contention was found to be a fact by the Board in its decision. [66] While this finding by the Board is not otherwise explained in its decision the only relevant exclusion in the agreement to which the Board could be referring is that found in Article I B, Section 3:

> "Persons presently under a collective bargaining agreement with the Culinary Workers Union . . ." [38]

If this is the exclusion to which the Board refers in its decision, petitioner submits that the term "persons presently under a collective bargaining agreement . . ." was never intended by the parties to the negotiations to have such effect at all.

In January of 1964, after tentative agreements on proposals regarding these snack bar and prepared foods employees, the chief negotiator for the union said to his counterpart of the Council, "Now, don't go out and sign up all the unsigned snack bars of the Culinary Workers while we're here talking about conditions for them." Mr. Fox responded that the union need not worry about that. [R.T. 281.]

Joseph M. McLaughlin, Attorney for the Food Employers Council, and a frequent participant in the Clerks-Council negotiations, testified on this point as follows:

> "Q. . . . On March 14, 1964—or between March 9 and March 14, 1964, was there any discussion over the word 'presently'?
>
> A. Not to my knowledge, with the exception that we had a discussion concerning certain concessionaires, but not in the context of the meaning of the word 'presently.' [R.T. 390.]
>
> * * *
>
> Q. . . . You've already testified that there was no discussion regarding the term 'presently' as far as the dates March 9 through March 14 are concerned. Is it your same testimony that there was no discussion regarding the effective date of the contract and 'presently' as it is in this Culinary Workers article?
>
> A. I didn't mean to testify that there was no discussion on a particular date, Mr. Dauber, because I don't remember that on March 14 there was a particular act or there wasn't. I can say—and this is in answer to your question—that there was, to my knowledge, no discussion at any time in these negotiations with respect to the meaning of the

> word 'presently' as it is found in this Paragraph 3, although—let me say this: this was negotiated language; all these words were worked on and they were all put in, but there was no big discussion as to what 'presently' meant." [R.T. 393.]

To now find that this clause was negotiated for the purpose of excluding the very work functions and employees that had been discussed at the bargaining table for over a period of a year is clearly not supported by the record received by the Trial Examiner.[2]

III.

The Clerks Asserted a Valid Claim of Representation in the Boy's Crenshaw Store Which Was Supported by a Showing of Interest Independent of the Multiemployer Labor Agreement.

The decision of the Board dismisses the existence of the separate and distinct claim of the Clerks to represent the Crenshaw employees of Boy's which representation was supported by the testimony of the employees who signed authorization cards and wished the Clerks to represent them. [R.T. 17-22-23, 29-30, 78-79, 87.] The Board finds [66] that such claim must be "viewed in the light of the Clerks' admittedly larger and encompassing claim to represent all the snack bar employees on a multiemployer basis." [66] The finding is made that "the lesser claim was part of the larger claim," that the Clerks did not assert it as a separate independent claim, "and that Boy's so understood." [66]

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[2]The finding of the Board on this fact, as well as others throughout the decision, is subject to the criticism of the Court in that it cannot be determined upon what evidence such finding is based. *Retail Store Employees Union v. NLRB*, 350 F. 2d 791, 59 LRRM 2763 (C.A.D.C., 1965).

It is true that the Clerks' major emphasis in their claim of representation and demand for recognition was based upon their multiemployer labor agreements covering most of the functions in the retail stores. However, the vice of the Board's argument is that it requires the Clerks to stand or fall upon one of two alternative theories to support their claims. As pointed out above, the question of the extensiveness of the appropriate unit for collective bargaining is to be decided by the Board itself and not by the parties. Section 9(b) of the Act, 29 U.S.C. 159(b) provides in relevant part that:

> "The Board shall decide in each case whether, in order to assure to the employees the fullest freedom in exercising the rights guaranteed by this Act, the unit appropriate for the purposes of collective bargaining shall be the employer unit, craft unit, plant unit, or subdivision thereof . . ."

An excellent example of such a determination by the Board is its *Piggly-Wiggly* decision, 144 N.L.R.B. 708, cited *supra*. As noted above, the Clerks based their claim of representation of the employees involved upon the same dual grounds which are presented in the instant case; a multi-employer agreement and an independent showing of interest in a single facility. The Board in that case found that the old Clerks-Council agreement did not constitute an adequate showing of interest because the contract contained "no provision for a snack bar department as such or for the categories of employees working therein." (144 N.L.R.B. at 710.) Nevertheless, the independent showing of interest in the single plant unit was sufficient to place the Clerks on the ballot with the Culinary Union in the election

which the Board directed to take place in the single-store unit.

There is clearly a disparity between the *Piggly-Wiggly* decision and the instant one. Nor can this disparity be explained by a distinction in the proceedings involved. While the *Piggly-Wiggly* decision resulted from a representation case and was brought pursuant to Section 9 of the Act and this case arose upon allegations of the commission of unfair labor practices pursuant to Sections 8 and 10 of the Act, nevertheless, there is a close parallel between the two cases in the relief sought. Thus, in the representation proceedings, both unions sought to be placed on the ballot before the Board-conducted election. In this case one of the two unions seeks an order of the Board compelling the respondent employers to cease recognizing the other union and bargaining with it unless and until both shall have been placed upon a similar ballot for such an election.

The Board has found [66] that "the Clerks did not assert the lesser claim as a separate independent claim." However, the record shows that the representatives of the Clerks secured the cards, informed the personnel manager of Boy's, and asked her not to recognize or bargain with anyone else. [R.T. 180.] The personnel manager did not, as the Board found, refuse recognition at this point "contending that the snack bar employees at all four of its stores should first be recognized" [64] but rather made this contention to the representative of the Culinary Union, Mr. Meister, who testified:

> ". . . When this Boy's Market thing came up, it was necessary for us to encompass—the employer

wanted all the stores included, . . . the employer insisted that they would not take an individual store, so it became necessary to get pledge cards from other stores . . . but there is only one store in our jurisdiction, and that is the one on Crenshaw." [R.T. 99.]

It thus appears from the record that the employer and the Culinary Union agreed upon a multi-store unit and, if so, the reasoning used by the Board in its decision below should serve to defeat that claim as well as the Clerks' major contention that a multi-store unit was appropriate.

That these two unions should compete in an election where the Board finds the appropriate unit to be within a single store, despite the claims or alternative claims as to unit raised by these unions, has been established by the Board in at least two other cases besides *Piggly-Wiggly*. See *e.g. Bab-Rand Company*, 147 N.L.R.B. 247 56 L.R.R.M. 1217 (1964) and *Esgro Anaheim, Inc.*, 150 N.L.R.B. 2, 58 L.R.R.M. 1056 (1964). In the former case the Clerks and the Culinary Union were competing for recognition and collective bargaining. In both cases the issue was whether or not a unit of the employer's operations throughout a geographic area or each operation individually was appropriate. In both the Board held the latter and in both elections were conducted within each separate unit.

Conclusion.

For the foregoing reasons, petitioner respectfully submits that the National Labor Relations Board has failed to apply the doctrine of the *Mid-west Piping* case and has failed to order that the respondent employers be-

fore it withhold recognition and bargaining from the Culinary Union, until the employees themselves might have the opportunity in a secret ballot election to determine this issue of crucial importance to them.

For this reason and to implement the policies contained in the Labor Management Relations Act, petitioner asks that this Court reverse the Order of the Board dismissing the complaint and that the Court direct the Board to issue an order pursuant to the *Midwest Piping* doctrine.

Dated: May 19, 1966.

Respectfully submitted,

Arnold, Smith & Schwartz,
Kenneth M. Schwartz,
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By Kenneth M. Schwartz,
Attorneys for Petitioner.

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Respectfully submitted,

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Robert M. Dohrmann,
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Certificate.

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those Rules.

Robert M. Dohrmann

No. 20,655

In the United States Court of Appeals for the Ninth Circuit

RETAIL CLERKS UNION, LOCAL 770 AFFILIATED WITH RETAIL CLERKS INTERNATIONAL ASSOCIATION, PETITIONER

v.

NATIONAL LABOR RELATIONS BOARD, RESPONDENT

LOS ANGELES JOINT EXECUTIVE BOARD OF HOTEL & RESTAURANT EMPLOYEES & BARTENDERS UNION, AFL-CIO, INTERVENOR

On Petition to Review and Set Aside an Order of the National Labor Relations Board

BRIEF FOR THE NATIONAL LABOR RELATIONS BOARD

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AUTHORITIES CITED

Cases:

Stat. 519, 29 U.S.C. 151 *et seq.*), to review and set aside an order of the National Labor Relations Board (R. 67),[1] issued on December 17, 1965, dismissing a complaint issued by the Board's General Counsel against The Boy's Markets, Inc. (herein called "Boy's"), Von's Grocery Co. (herein called "Von's"), and Food Employers Council, Inc. (herein called the "Council"). In its answer to the petition, the Board has requested that the petition be dismissed. This Court has jurisdiction of the proceedings, the incidents alleged to have constituted unfair labor practices having occurred in Los Angeles County, California, where the California corporations (Boy's and Von's) each operates a chain of retail stores and supermarkets and the Council, also a California corporation, bargains collectively for its employer-members engaged in the retail food market business. It is conceded that members of the Council, including Boy's and Von's, are engaged in commerce. The Board's Decision and Order (R. 62-67) are reported in 156 NLRB No. 6.

COUNTERSTATEMENT OF THE CASE

I. The Board's Findings of Fact

The Board reversed its Trial Examiner and dismissed the entire complaint. It found that when Boy's

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[1] References to Volume I, containing the pleadings, the Board's decision and order, etc., are designated as "R."; references to reproduced portions of the testimony as "Tr."; references to the parties' exhibits as "Ex." References preceding a semicolon are to the Board's findings; those following are to the supporting evidence.

and Von's entered into collective bargaining contracts with the Joint Board [2] covering their snackbar employees, no real questions concerning representation were pending by reason of alleged requests by the Clerks to represent such employees. The Board therefore concluded that neither employer had violated Section 8(a)(2) and (1) of the Act by contributing assistance and support to the Joint Board, and that therefore neither employer had violated Section 8(a)(3) and (1) of the Act by maintaining union security provisions in their contracts with the Joint Board. The Board further concluded that the Council did not illegally assist Boy's and Von's, as their agent, to encourage their respective employees to join and assist the Joint Board and to refrain from joining or assisting the Clerks and hence that the Council did not violate Section 8(a)(1) of the Act. The Board based its conclusions on the following evidentiary facts:

A. *The Clerks seek to represent Boy's and Von's snackbar employees under their multiemployer contract*

Von's and Boy's, retail grocery chains in the Los Angeles area, are members of the Council, a trade association. Since 1941, the Council, on behalf of its members, has made multiemployer bargaining agreements with the Clerks (R. 63, 31; Tr. 8, 9, 15, 16, 19-20, 332). The last contract in the series ran from January 1, 1959, through March 31, 1964. It covered all retail clerks engaged in "retail food, bakery, candy

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[2] Los Angeles Joint Executive Board of Hotel and Restaurant Employees and Bartenders Unions, AFL-CIO.

and general merchandise" operations (R. 63, 31; G.C. Ex. 2). When this contract was executed, the stores of the Council's members did not have snackbars for sale of food for ready consumption on and off store premises and hence had no snackbar employees (R. 63, 31; Tr. 303-304).

Early in 1962, the Clerks' executive administrator, Lois McKinstry, noticed that snackbars were being set up in Los Angeles area supermarkets. In consequence, the Clerks told the Council that negotiations for a new multiemployer contract should include discussion of wage classifications for all the then unrepresented snackbar employees of the Council's members (R. 63, 31; Tr. 303-305).

On November 23, 1962, the Clerks, by letter, sought to have Von's recognize the Clerks as bargaining representative of Von's snackbar employees in view of the existing multiemployer contract. Specifically, the Clerks sought to confer with management regarding the fact that certain of these employees "have failed to become Local 770 members within the required time, in accordance with our agreement." The Clerks also asked in the letter that these workers "be paid according to the Retail Food Agreement" (R. 64, 32; R. Ex. 1). Von's rejected both demands, however. On December 4, 1962, Von's wrote the Clerks that the functions and duties of its snackbar employees "do not now, nor have they at any other time, come under the terms or the jurisdiction of the Retail Clerks Food Agreement" (R. 64, 32; R. Ex. 2).

Negotiations between the Council and the Clerks, for a new multiemployer contract, began in Janu-

ary 1963. The discussions included the subject of wage rates for snackbar employees on a multiemployer basis (R. 64, 33-38; Tr. 238, 240, 242, 245, 257-258, 276-277, 284-285, 389-390, G.C. Ex. 15-17, 19, 23, Jt. Bd. Ex. 10). In early December 1963, the Clerks made an unsuccessful attempt to obtain recognition as the representative of Boy's snackbar employees. At that time, C. Gus DeSilva, the Clerks' general representative, and Robert L. Madray, a field representative, called on Ida Freed, Boy's personnel manager. They told Freed that Boy's Crenshaw store's snackbar employees were "covered" by their existing multiemployer contract, and that in addition, the Clerks had gotten signed membership applications from all the snackbar employees of that store, and, in the words of Madray, "that they were negotiating for a contract" and "to not sign a contract with anybody [else]" (R. 64, 39-40; Tr. 138-141, 143, 179-181, 309, 315).[3] Freed promised to report the matter to her superiors and advise the Clerks of their decision (R. 40; Tr. 182). She also told these Clerks' representatives that Boy's would not enter into a contract with the Joint Board pending the conclusion of the still pending multiemployer negotiations between the Council and the Clerks (R. 64, 40; Tr. 140-141). Shortly afterward, McKinstry spoke to Freed by telephone and, again claiming to represent the snackbar employees, "reminded her that we were in negotiations attempting to negotiate a wage classification

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[3] The Clerks had cards from five of the store's eight snackbar employees at the time (R. 40, n. 14; G. C. Exs. 4-8, 13).

and fringe benefits for these people." Freed gave her the same assurance, namely, "that she would wait untill we concluded negotiations." (R. 64, 40; Tr. 309, 318).

B. ***Boy's and Von's contract with the Joint Board with regard to their snackbar employees on a multi-store basis after card checks show the Joint Board to represent a majority of the snackbar employees in the stores of each***

Negotiations for a new multiemployer contract between the Council and the Clerks, which had begun in January 1963, were still pending at the close of 1963. On January 8, 1964, the Joint Board, on behalf of affiliated unions representing culinary workers, wrote Boy's asking recognition as majority representative of all of Boy's snackbar employees in the Los Angeles area (R. 41; Tr. 99, Jt. Bd. Ex. 7). Thereafter, a card check by an accounting firm disclosed that 17 of Boy's 21 snackbar employees employed in its 4 stores in Los Angeles County had duly designated the Joint Board as their collective bargaining representative (R. 41-42; Tr. 9, 99, 208-209, 232-233, 370, Jt. Bd. Ex. 8). Accordingly, on February 1, 1964, Boy's negotiated and entered into a contract with the Joint Board, covering all snackbar employees in these stores and containing a union security provision (R. 64, 41-42; Tr. 99, 211, 234, G.C. Ex. 9).

Von's also had snackbars in four of its Los Angeles County stores (R. 43; Tr. 98, G.C. Ex. 12). On January 10, 1964, the Joint Board wrote Von's informing it that the Joint Board represented the majority of all its snackbar employees and asking to

meet for the purposes of negotiating an agreement (R. 43; Council Ex. 3). Von's forwarded the letter to the Council, which in turn called in a public accountant who conducted a card check (R. 43; Tr. 168, 331, 335). Upon the accountant's report that 13 of Von's 23 snackbar employees had submitted authorization cards to the Joint Board, Von's entered into negotiations with that organization (R. 44; Tr. 169, 336). On March 2, 1964, the parties entered into a contract covering the snackbar employees in Von's four stores and providing for union security (R. 64, 44; Tr. 97-99, 370, G.C. Ex. 12).

On March 14, 1964, on the basis of the negotiations which had commenced in January 1963, the Council and the Clerks executed a new multiemployer contract. This agreement covered snackbar employees of employers of the multiemployer unit, except those currently under a collective bargaining agreement with the Joint Board (R. 66, 38; Tr. 128, 296-297, 389-390, Jt. Bd. Ex. 10, p. 4).

II. The Board's Conclusions And Order

The Board reversed its Trial Examiner, who had found that Von's and Boy's made bargaining contracts with the Joint Board at times when conflicting claims by a rival union gave rise to real questions concerning representation. The Board found that the claim of the Clerks, as a rival union, was clearly unsupportable and, accordingly, could not give rise to a genuine question concerning representation. The Board therefore concluded that neither Von's nor Boy's had given the Joint Board assistance such as

Section 8(a)(2) and (1) of the Act prohibits, and therefore that neither had maintained an illegal contract containing a union security provision in violation of Section 8(a)(3) and (1). Finally, the Board concluded that the Council had not illegally assisted Boy's and Von's, as their agent, to encourage their employees to join and assist the Joint Board and refrain from assisting and joining the Clerks, and hence had not violated Section 8(a)(1) of the Act (R. 62-67).

Accordingly, the Board ordered that the complaint be dismissed in its entirety.[4]

ARGUMENT

The Board Properly Determined That The Employers Lawfully Recognized And Entered Into Contracts With The Joint Board. Accordingly, The Dismissal Of The Complaint Was Proper

Von's and Boy's both entered into multi-store contracts with the Joint Board only after it had been shown that a majority of the snackbar employees at all the stores had signed cards authorizing the Joint Board to represent them. Therefore, even though the Joint Board's representative status had not been established in a Board election the two employers did what the Act requires. For, in the foregoing circumstances, "Section 8(a)(5) declares it to be an unfair labor practice for an employer to refuse to bar-

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[4] As the facts were virtually undisputed, the differing inferences and legal conclusion drawn by the Trial Examiner are entitled to no special weight. *Cheney Lumber Co.* v. *N.L.R.B.*, 319 F. 2d 375, 377 (C.A. 9).

gain collectively with the representatives of his employees . . ." *United Mine Workers* v. *Arkansas Flooring Co.*, 351 U.S. 62, 71-72; *N.L.R.B.* v. *Geigy Co., Inc.*, 211 F. 2d 553, 556 (C.A. 9), cert. denied, 348 U.S. 821. Stated affirmatively, an employer is "under a duty to bargain with [the majority representative of his employees] and execute a contract with it if agreement [is] reached." *N.L.R.B.* v. *Kiekhaefer Corp.*, 292 F. 2d 130, 137 (C.A. 7), cert. denied, 362 U.S. 950. *N.L.R.B.* v. *National Motor Bearing Co.*, 105 F. 2d 652, 659-660 (C.A. 9). Moreover, it is the employer's duty to "do so promptly." *N.L.R.B.* v. *Corning Glass Works*, 204 F. 2d 422, 426 (C.A. 1).

In support of its contention that it was improper for the two companies to contract with the Joint Board, the Clerks rely on the principle established in *Midwest Piping and Supply Co.*, 63 NLRB 1060, which prohibits an employer from recognizing or contracting with one of two rival union claimants at a time when their claims give rise to a real question concerning representation, and requires that a union's right to be recognized first be determined under the election procedures provided in the Act. The Clerks contend that Von's and Boy's were barred from making the agreements, since the Clerks had been continuously claiming recognition as representative of Von's and Boy's snackbar employees. They further contend that the Council's participation on behalf of Boy's and Von's in the multiemployer negotiations with the Clerks, which included discussion of working conditions for snackbar employees, coupled

with Boy's alleged agreement to abide by the outcome of the negotiations, amounted to recognition of the Clerks as the representative of these employees.

However, the Clerks misconceive the principle of *Midwest Piping*. That principle imposes a duty of neutrality pending a Board election where an employer is faced with conflicting valid claims of two or more rival unions. However, not every union claim of itself is sufficiently valid to require the employer's neutrality. Not even the filing of a formal representation petition by one of the unions will necessarily make recognition and contracting with the other unlawful. As the Board pointed out (R. 65), the rival claim must be of a nature which gives rise to "a real question" concerning representation. It is uniformly held that "an employer does not violate the Act by extending recognition to one of the competing unions where the rival union's claim is clearly unsupportable or specious, or otherwise not a colorable claim. In such circumstances, there is no real question concerning representation of employees." *Iowa Beef Packers, Inc.* v. *N.L.R.B.*, 331 F. 2d 176, 181-184 (C.A. 8); *N.L.R.B.* v. *Swift & Co.*, 294 F. 2d 285, 287-288 (C.A. 3); *Kiekhaefer, supra*, 292 F. 2d at 137; *N.L.R.B.* v. *Wheland Co.*, 271 F. 2d 122, 124 (C.A. 6); *Cleaver-Brooks Mfg. Co.* v. *N.L.R.B.*, 264 F. 2d 637, 642 (C.A. 7), cert. denied, 361 U.S. 817. Contrast, *N.L.R.B.* v. *Knickerbocker Plastic Co.*, 218 F. 2d 917, 922 (C.A. 9); *N.L.R.B.* v. *Signal Oil and Gas Co.*, 303 F. 2d 785, 787 (C.A. 5).

The Clerks never presented a supportable claim to represent the snackbar employees of either Boy's or

Von's, and so there was never a real question concerning representation. It is undisputed that the Clerks neither had nor claimed to have authorization cards from any snackbar employees at Boy's or Von's total of eight stores involved, except for those at Boy's Crenshaw store (R. 66, 39; Tr. 234, 293, 315, 322, 326, 343, 377, 378, 392). Thus, their claim that they represented all the snackbar employees on a multi-store basis was based essentially on the 1959 multi-employer contract with the Council, which covered Von's and Boy's stores. (R. 66; Tr. 293, 315, 322, 377-378, 382, 384-385, 391-392). However, the Board reasonably found that that contract, made in 1959 when there were no snackbar employees, and omitting to provide for them concerning wage rates or in any other respect, did not cover such workers (R. 66; Tr. 341-343). In 1963, in a case involving the *same* contract and another employer in the Council, the Board also reached this conclusion, *i.e.*, that the agreement never contemplated or covered snackbar employees. *Piggly-Wiggly*, 144 NLRB 708, 709-710, (See Tr. 315-317, 404). Thus, the Clerks, which had no standing as the snackbar employees' majority representative by virtue of the 1959 contract, surely had none by virtue of merely the 5 cards secured from employees at one of Boy's stores.

The Clerks now contend (Br. 21) that since they presented a card-backed claim at one of Boy's stores, the Board should have held that a colorable claim had been raised for representation on a single store basis, consistent with the holding in *Piggly-Wiggly* "that a valid claim for representation had been made within

a presumptively appropriate single plant unit." However, in that case, in 1963, a union was seeking an election to represent the snackbar employees of a single store in the Council. The Clerks unsuccessfully tried to block the election proceeding on the same ground that was rejected here, *i.e.*, that the newly-acquired snackbar employees of the Council members were covered by the 1959 multiemployer agreement. The Board simply held that the presumptive appropriateness of a single store unit had not been overcome, since the petitioning union sought *only* this smaller unit and the employees were unrepresented on any basis. *Piggly-Wiggly, supra*, 144 N.L.R.B. at 710.

In the instant case, however, no question of representation was raised involving a single store unit. This is revealed in both the Clerks' own testimony and their arguments in the Board proceeding. As set forth *supra*, pp. 3-7, in November 1962 the Clerks claimed to represent the snackbar employees at *all* of Von's stores involved by virtue of the 1959 multiemployer contract, and Von's flatly rejected the claim. Similarly, in the 1963 multiemployer negotiations with the Council the Clerks' attempt to include the snackbar employees in the new contract's coverage was based wholly on the assertion "throughout the discussions that take-out bar employees were covered by the . . . Clerks' agreement" (R. 33-38; Tr. 257). As the Board noted, with this background the Clerks' December 1963 assertion of authorization cards from snackbar employees at Boy's Crenshaw Store alone was clearly in furtherance of its "larger and encompassing claim to represent all the snackbar em-

ployees on a multiemployer basis . . . and Boy's so understood" (R. 66). Thus, Clerks' officials told Boy's that snackbar employees were "covered" on a multi-store basis under the 1959 multiemployer agreement still in effect, and that the Council and the Clerks "were in negotiations attempting to negotiate a wage classification and fringe benefits for these people." (Tr. 180, 309). A multi-store claim only was clearly imparted to Mrs. Freed, the Boy's official, who told the Clerks "that while the Culinary [Joint Board] had contacted the people, there would be no contract signed" because of the negotiations with the Council (Tr. 309).[5]

When the Joint Board successfully organized Boy's and Von's snackbar employees in January of 1964, it was entirely on the basis of multi-store units. No contention was raised that those employees could not appropriately be represented on that basis. Indeed, Boy's and Von's both entered into multi-store contracts with the Joint Board on, respectively, February 1 and March 1, 1964. Additionally, when the Clerks and the Council later executed a new multiemployer agreement on March 14, it sought to establish terms of employment for snackbar employees on a multi-store basis and gave no indication that the

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[5] Significantly, the Clerks state in their brief, (p. 6) that, "three officials of the Retail Clerks testified that they informed the personnel manager of Boy's that a majority of the employees in the snackbar of the Crenshaw store had signed authorization cards, that it was a *combination operation being included in the current Clerks-Council contract negotiations* . . ."

Clerks were seeking to represent only the Crenshaw store employees. To the contrary, the contract purported to extend multi-store coverage to all snackbar employees except, *inter alia*, "persons presently under a collective bargaining agreement with Culinary Workers Union [Joint Board] . . ." (R. 66, 38; Tr. 128, 296-297, 389-390, Jt. Bd. Ex. 10, p. 4).

In sum, the undisputed facts contain no suggestion that any union was seeking representation of a single store unit. Accordingly, the Clerks' assertion that the authorization cards they procured at a single store in Boy's chain constituted a colorable claim for representation, which barred Boy's and Von's from honoring the Joint Board's authenticated majority claim in multi-store units, is wholly without substance. Compare, *N.L.R.B.* v. *Sheridan Creations, Inc.*, 357 F. 2d 245, 248 (C.A. 2); *Retail Associates, Inc.* 120 *N.L.R.B.* 388, 392, 394; *Bell Bakeries of St. Petersburg, Etc.*, 139 N.L.R.B. 1344, 1346, 1350-1351; *Scougall Rubber Mfg. Co., Inc.* 126 NLRB 470, 472; *Neville Foundry Co., Inc.*, 122 NLRB 1187, 1190.

The Clerks' further contentions have no merit. Neither Von's nor Boy's was bound by any alleged Council recognition, during the 1963 multiemployer negotiations, of the Clerks as the representative of their snackbar employees. It does not appear that either employer authorized the Council to represent it in bargaining for these employees. When the Joint Board requested recognition from Von's and Boy's in January of 1964, the Council supplied accountants to verify that the Joint Board represented the two employers' snackbar employees. However, this was

consistent with a view that the Joint Board could be the employees' selected representative, and not that the Clerks' representative status had been recognized in the multiemployer negotiations. In any event, the Clerks may scarcely make this contention. As shown, *after* Von's and Boy's recognized and executed agreements with the Joint Board, the Clerks willingly executed a new multiemployer agreement with the Council which effectively excluded these two employers' snackbar employees from its coverage.

Finally, the Clerks may not rely on Mrs. Freed's assurance that Boy's would not enter into a contract with the Joint Board pending conclusion of the current negotiations between the Clerks and the Council. As the Board pointed out (R. 66-67), neither Boy's nor Von's were entitled to withhold recognition from the Joint Board once it had established its majority, absent a rival claim which would itself raise a real question concerning representation. As the Clerks had no support for such a claim, the Act imposed an immediate obligation to deal with the chosen representtive of the snackbar employees, which supervened any alleged undertaking not to do so. See cases cited *supra*, p. 9.[6]

In sum, in view of the failure of the Clerks, by any of their claims, to raise a real question concerning representation there was no lawful obstacle to Boy's and Von's entering into the contracts with the Joint

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[6] For the above reason, election cases cited by the Clerks (Br. 32), where the bargaining obligation in an appropriate unit had not been established by authorization cards, are totally inapposite.

Board, and the conduct of each employer was entirely lawful. It further follows that the Council did nothing wrongful in assisting either of these employers in determining that recognition of the Joint Board was required. Consequently, the Board's dismissal of the complaint was proper.

CONCLUSION

Accordingly, it is respectfully submitted that the petition to review the Board's order should be dismissed.

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June 1966.

Certificate

The undersigned certifies that he has examined the provisions of Rules 18 and 19 of this Court, and in his opinion the tendered brief conforms to all requirements.

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No. 20655

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Retail Clerks Union, Local 770, Affiliated with Retail Clerks International Association,

Petitioner,

vs.

National Labor Relations Board,

Respondent.

REPLY BRIEF OF PETITIONER.

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TABLE OF AUTHORITIES CITED

As stated in petitioner's Opening Brief, at page 7, the record does not reveal that Boy's Markets, Inc., negotiated any terms of its collective bargaining agreement with the Culinary Union. The testimony of Ida Freed, personnel manager of Boy's Markets, shows that a representative of the Culinary Union brought a copy of a contract to her office in January of 1964, that she read it over and gave it to her supervisor, Mr. Fitzpatrick. [R.T. p. 210.] When Mr. Fitzpatrick received it "(h)e read it over and he said, 'It's okay.'" [R.T. p. 211.] Thereafter the contract was put into final form and executed on February 1, 1964. [R.T. p. 211.]

The above-quoted portion of the counterstatement of the Board also alleges that the contract between Boy's and the Culinary Union covered "*all* snack bar employees in these stores" referring to the four stores in Los Angeles County owned by Boy's which had snack bar and/or take out food services. However, Paul Meister, organizer for the Culinary Union, testified that the contract with Boy's Markets, signed on February 1, 1964, applied to only *one* store, the one located on Crenshaw Boulevard [R.T. p. 99], in which both the Clerks and the Culinary Union had secured authorization cards. [R.T. pp. 17, 19, 22, 24, 29, 30, 79, 82.]

ARGUMENT IN REPLY TO THE BRIEFS OF RESPONDENT AND INTERVENOR.

I.

The Clerks Presented to Boy's Markets a Claim for Recognition Identical in Scope and Validity to That Presented by the Culinary Union.

Both the Board and the Culinary Union in their briefs have taken the position in support of the holding of the Board below that the only real claim of representation made by the Clerks was the claim that the work functions in the snack bars were covered by the Clerks' 1959 agreement with the food markets. This finding by the Board simply does not square with the overwhelming evidence to the contrary contained in the transcript of proceedings before the Trial Examiner.

As stated above, in petitioner's reply to the counter-statement of the case, both the Clerks and the Culinary Union secured authorization cards from all of the employees of Boy's Markets working in the snack bar of the store on Crenshaw Boulevard. There is no dispute that any of the cards obtained by either of the unions are other than genuine. Representatives of each union testified that that store was the only Boy's Market having a snack bar within the jurisdiction of the union [R. T. 99, 179]. Both unions presented their demands for recognition in that one store to the personnel manager of Boy's. [R.T. pp. 99, 180.] It is only at this point that the unions diverged in their further organizational efforts. The Clerks continued to bargain with the Food Employers Council as agent for Boy's for that specific

purpose as set forth in petitioner's Opening Brief, pages 22 through 27. The Clerks did so because the personnel manager of Boy's agreed to let the matter be handled by the Council. [R.T. p. 309.]

The record also shows that no discussion took place between the Clerks and Boy's regarding the extent of the bargaining unit involved. But, when this same personnel manager was contacted by a representative of the Culinary Union, she, for the first time, purported to state her company's position that the appropriate unit for collective bargaining on behalf of snack bar employees consisted of snack bar employees at *all locations* of the employer operating snack bars. It is the grossest form of conjecture to argue, as does the Board and intervenor, that the Clerks never presented a supportable claim of representation of these employees on a multi-store basis because it was only with the assisted union that the employer took a position with respect to the appropriate collective bargaining unit. To now determine that Boy's had no obligations of neutrality under the *Mid-West Piping* doctrine at that point in time when it became aware of conflicting claims in the identical location, the Board, is, in effect, announcing the retroactive abrogation of a rule designed to protect the rights of the employees guaranteed to them by Section 7 of the National Labor Relations Act, 29 U.S.C. Section 157.

With respect to the question of appropriateness of the unit chosen for collective bargaining, it should be noted that nowhere in the decision of the Board, reversing its Trial Examiner, is there a finding as to whether or not any of the claims of representation

made by either competing union were in a unit appropriate for collective bargaining. This deficiency exists despite the citation in the decision (65) of the Board's prior decision in *William Penn Broadcasting,* 93 N.L.R.B. 1104 (1951), a decision dismissing a complaint for failure to show that a claim of representation made by an unassisted union was within an appropriate unit.

The implication from the present decision is that a multi-store unit is appropriate because the Board makes the same error in its decision as does its General Counsel and the Culinary Union in their briefs in finding (64) that the Culinary contract with Boy's covered "All snack bar workers of Boy's in four stores in Los Angeles County." As stated *supra,* the record indicates clearly [R.T. p. 99] that, while the Culinary Union secured authorization cards from a majority of the snack bar employees in four locations it has never acted in response to those authorizations to represent more than the employees at the Crenshaw location. Since it appears that the Culinary Union never intended to represent the employees of Boy's on the multi-store basis and has never done so, whereas the Clerks spent months in negotiations involving the Council and the nine Southern California local unions [R.T. p. 375] and secured authorization cards from all of the snack bar employees within its geographic jurisdiction, petitioner respectfully submits that it was the claim of the Culinary Union which was without merit in that the said union was illegally assisted by Boy's Market when it chose to deal with that union in violation of its representations to the competing union.

II.

A Cognizable, Valid Claim of Representation Imposing a Duty of Neutrality on the Employer Exists Even When Authorization Cards Are Not Secured by Either or Both Unions.

Both the Board and the Culinary Union argue in their briefs that, because an employer may recognize one competing union where the claim of the other is clearly specious, and further because the Clerks in the instant case did not secure authorization cards from a majority of employees of both Von's and Boy's working in their snack bars; it follows that the Clerks' claim is a specious one and both Boy's and Von's were free to recognize and bargain with the Culinary Union. Intervenor, in its brief at pages 10 through 12 goes so far as to argue that, had the employers recognized the Clerks at the Clerks-Food Employers Council negotiations, it would have constituted a violation of Sections 8(a)(1) and (3) of the National Labor Relations Act, 29 U.S.C. Sections 158(a)(1) and (3).

Petitioner submits that these arguments are without merit. A representative claim is not necessarily specious or invalid because it is based upon a history of collective bargaining. Further, even assuming that the intervenor is correct in arguing that bargaining between the Food Employers Council and the Clerks regarding these employees would constitute an unfair labor practice, neither the Clerks as charging party, nor the General Counsel of the Board has sought an order directing the Council to bargain with the Clerks but rather sought an order compelling Boy's, Von's and the Council to desist from recognizing *either* union until one had been certified following a Board election.

In support of the Board's determination that the Clerks' claim in the instant case was not a valid one, both the Board and the intervenor have cited *N.L.R.B. v. Corning Glass Works,* 204 F. 2d 422 (C.A. 1, 1953) and *N.L.R.B. v. Indianapolis Newspapers, Inc.,* 210 F. 2d 501 (C.A. 6, 1954). Both cases were noted in petitioner's brief at page 17 as illustrating the early failure of the Courts of Appeals for the first and seventh circuits to apply the Board's ruling in *Mid-West Piping & Supply Co., Inc.,* 63 N.L.R.B. 1060 (1945). The Board itself recognized that its doctrine had not been followed in either case in its decisions shortly thereafter, *Novak Logging Co.,* 119 N.L.R.B. No. 196, 41 L.R.R.M. 1347 (1958); and *Scherrer & Davisson Logging Co.,* 119 N.L.R.B. No. 197, 41 L.R.R.M. 1349 (1958). In each decision, the Board noted, in an identical footnote, that it adhered to its decision in *Mid-West Piping* despite the failure of the circuit to apply it in the *Indianapolis Newspaper* case. The Board further held that the *Corning Glass Works* case was "inapposite" to a factual situation involving current collective bargaining negotiations between the employer and one of the competing unions. The Board pointed out that:

> "In this context, as the cases have repeatedly pointed out, the respondent could not assume to judge for itself upon a showing of authorization cards[6] which of the contending unions was the statutory representative of the employees
>
> * * *
>
> [6]The percentage of authorization cards shown is immaterial . . ." (41 LRRM at 1348.)

In spite of the Board's unwillingness to accept the first circuit's decision in the *Corning Glass Works* case, its general counsel nevertheless has cited the case at page 9 of his brief in support of the Board's order.

With respect to the argument of the intervenor that negotiations between the Clerks and the Food Employers Council constituted unfair labor practices, petitioner respectfully submits that it is wholly irrelevant whether or not such an effect might have flowed from the negotiations which did take place. The weakness of such an argument is demonstrated by the cases intervenor cites in support of its argument. Thus, *Wolfer Printing Company*, 145 N.L.R.B. 70 (1963) held that a union's attempts to include work functions not previously in its bargaining unit without a vote of the employees performing such functions might, when accepted by the employer, constitute violations of Sections 8(a)(1) and 8(a)(3) of the Act. The Board further held that the arguments presented by the bargaining union were "specious." Nevertheless, the importance of the case is to be found in the order issued by the Board which directed that the employer cease and desist from recognizing the competing union unless and until it had been certified by the National Labor Relations Board following an election. Thus, even assuming the facts of *Wolfer Printing* to be within the scope of the present case, that precedent *requires* application of the *Mid-West Piping* rule and does *not* preclude it.

Similarly, *Atlantic Freight Lines, Inc.*, 117 N.L.R.B. 464 (1956), is not authority against the position of petitioners in this case, both because that case involved the commission of an unfair labor practice by the union violative of Section 8(b)(4)(i)(A) of the Act in an

attempt to acquire jurisdiction over certain unrepresented employees and because, despite such attempted coercion the order of the Board, as in *Wolfer Printing, supra,* imposed a *Mid-West Piping* remedy, its order requiring that the union desist from giving effect to its agreement with the employer unless and until it was certified by the National Labor Relations Board.

III.

The United States Court of Appeals Has Never Held, Upon the Facts Presented Here, That an Employer May Disregard Its Obligation of Neutrality and Bargain With a Competing Union.

For the converse of the above statement, both the Board and intervenor have, in their briefs at pages 10 and 7, respectively, cited eight circuit decisions. Three of these decisions, *Iowa Beef Packers, Inc. v. N.L.R.B.*, 331 F. 2d 176 (C.A. 8, 1964); *N.L.R.B. v. Knickerbocker Plastic Company,* 218 F. 2d 917 (C.A. 9, 1955); and *N.L.R.B. v. Signal Oil and Gas Company,* 303 F. 2d 785 (C.A. 5, 1962) actually applied the *Mid-West Piping* doctrine, finding that the rival unions involved both presented valid claims of representation.

Of the remaining five cases the facts substantially differed from those presented herein. In *N.L.R.B. v. Swift and Company,* 295 F. 2d 285 (C.A. 3, 1961) the employer had been negotiating a renewal of a collective bargaining agreement with one union when it received notice that another union had filed a representation petition with the Board seeking an election. There was no evidence produced to show any knowledge on the part of the employer that the incumbent union had somehow lost its majority status among the em-

ployees. As the Court pointed out, the Board did not offer evidence of the numbers or validity of the authorization cards obtained by the rival union, relying solely on its power under the act to determine that a question concerning representation exists and asking the Court to assume, in effect, that the Board had made such a determination.

In *N.L.R.B. v. Kickhaefer Corporation,* 292 F. 2d 130 (C.A. 7, 1961) the union with which the company was bargaining had been certified as exclusive collective bargaining representative within one year prior to the filing by the rival union of unfair labor practice charges. The Board presented no evidence that its general rule granting immunity to such certification for the one-year period would be, or should be, set aside.

In *N.L.R.B. v. Wheland Co.,* 271 F. 2d 122 (C.A. 6, 1959) a case in which three rival unions were participating, one union secured authorization cards from a majority of employees, the other two did nothing until well after the employer had recognized the first.

In *Cleaver-Brooks Manufacturing Company v. N.L.R.B.,* 264 F. 2d 637 (C.A. 7, 1959), the employer had real and immediate notice of the invalidity of one union's claim because a majority of its employees engaged in a near-riot ejecting the rival union representative from an employees' meeting. Immediately after the ejection, the employees signed and presented to the employer a petition asking for recognition of the other union.

Finally, in *N.L.R.B. v. Air Master Corp.,* 339 F. 2d 553 (C.A. 3, 1964) a team of employees of the company were bargaining with management when they announced that they and a majority of the other employees whom they represented had switched their affiliations to a new union. When the employer asked for proof it was forthcoming in a matter of hours.

It is significant that in many of these cases, the claims of representation for and on behalf of one or both of the competing unions came directly from the mouths of the employees themselves. See *e.g. Cleaver-Brooks Manufacturing Company v. N.L.R.B., supra,* and *N.L.R.B. v. Air Master Corp., supra.* In *N.L.R.B. v. Kiekhaefer Corporation, supra, Cleaver-Brooks Manufacturing Company, supra,* and *N.L.R.B. v. Signal Oil and Gas Company, supra,* the employees spoke through their own independent union.

From all of the foregoing, petitioner submits that it is apparent that neither the Board nor the Courts have yet so drastically limited the *Mid-West Piping* rule as to deny its application in the instant case. It is further submitted that, from the weight of the evidence, respondents have clearly assisted the Culinary Union in achieving its status as collective bargaining agent of the snack bar employees of Boy's and Von's by their misrepresentations to the Clerks [R.T. pp. 308-309] and to their employees [R.T. pp. 37-45] as if these respondents had been motivated so to do by an animus proscribed by Section 7 of the Act, 29 U.S.C. 157.

See *e.g. Ronney and Sons Furniture Manufacturing Company,* 93 N.L.R.B. No. 180, 27 L.R.R.M. 1524 (1951).

Conclusion.

For the foregoing reasons, petitioner respectfully requests that the relief prayed for in its Opening Brief be granted by the Court.

Dated: August 8, 1966.

Respectfully submitted,

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By ROBERT M. DOHRMANN,
Attorneys for Petitioner.

Certificate.

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those Rules.

Robert M. Dohrmann

No. 20,655

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

RETAIL CLERKS UNION, LOCAL 770 Affiliated with Retail Clerks International Association,

Petitioner,

vs.

NATIONAL LABOR RELATIONS BOARD,

Respondent,

LOS ANGELES JOINT EXECUTIVE BOARD OF HOTEL & RESTAURANT EMPLOYEES & BARTENDERS UNION, AFL-CIO,

Intervenor.

On Petition to Review and Set Aside an Order of the National Labor Relations Board.

Brief of Intervenor, Los Angeles Joint Executive Board of Hotel and Restaurant Employees and Bartenders Union, AFL-CIO.

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TOPICAL INDEX

ARGUMENT.

I.

The National Labor Relations Board Properly Refused to Apply the Midwest Piping Doctrine to the Instant Case.

A. The Midwest Piping Doctrine Must Be Narrowly Construed Since the Doctrine Conflicts With Section 8(a)(5) of the National Labor Relations Act.

Section 8(a)(5) of the National Labor Relations Act,[1] provides that

> "it shall be an unfair labor practice for an employer . . . to refuse to bargain collectively with the representatives of his employees. . . ."

There is no question whatever that at the time the employers recognized the Joint Board as the bargaining representative of their snack bar employees, the Joint Board represented a majority of those employees. In the case of Boy's Markets, the employer retained the accounting firm of J. R. McKnight & Associates to conduct a card check. In the case of Von's, the Council utilized Mr. Charles L. Lang, a public accountant, to conduct the card check. In both cases, of course, the accountants verified the Joint Board claim. The wording of Section 8(a)(5) thus imposed upon the employers the clear duty to recognize and bargain with the Joint Board.

The rule of *Midwest Piping and Supply Co., Inc.* (1945), 63 N.L.R.B. 1060, 17 L.R.R.M. 40, upon which petitioner premises its case, precludes an employer from recognizing one of two rival unions as the representative of its employees when a "real question of representation" exists.

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[1] 29 U.S.C. §158(a)(5).

The courts have, however, been extremely strict in their application of the *Midwest Piping* rule. This strictness stems from an awareness that the *Midwest Piping* rule is in derogation of Section 8(a)(5) of the Act.

The Board itself has stated that the *Midwest Piping* doctrine, "necessary though it is to protect freedom of choice in certain situations, can easily be in derogation of the practice of continuous collective bargaining, and should therefore, *be strictly construed and sparingly applied*." (*Ensher, Alexander and Barsoon, Inc.* (1947), 74 N.L.R.B. 1443, 1445, 20 L.R.R.M. 1282; emphasis added.)

B. Application of Midwest Piping Is Inappropriate in the Instant Case Because the Joint Board Presented to the Employers Indisputable Proof of Majority Interest and Because Petitioner Made No Genuine Claim of Representation.

The courts have refused to apply *Midwest Piping* in several cases in which an employer has contracted with one of two contesting unions. The cases involving refusal to apply *Midwest Piping* fall into two categories: (1) those in which the union which has been recognized has presented to the employer unequivocal evidence of its majority interest; and (2) those in which the unrecognized union has made no genuine claim of majority interest. The decision of the National Labor Relations Board may be sustained by reference to either of these categories of cases.

We turn to the cases rejecting *Midwest Piping* upon the ground that the recognized union had presented unequivocal evidence of majority interest.

The contention that the courts must refuse to apply *Midwest Piping* if the recognized union has presented to the employer indisputable proof of majority interest, is demonstrated by *N.L.R.B. v. Indianapolis Newspapers* (7th Cir. 1954), 210 F. 2d 501. In *N.L.R.B. v. Indianapolis Newspapers,* the employer respondent's circulation department employees were represented by the Guild, a CIO union. During the period in which the Guild and the employer were negotiating a new contract, a majority of the circulation department employees became dissatisfied with the Guild and designated in its place a newly organized independent association. The Association's representatives presented to the employer petitions which bore the signatures of more than 60% of the affected employees. The employer checked the names on the petition against its payroll records and, finding that the signatures were valid, recognized the association as the unit's bargaining representative. The court reversed the order of the Board that the employer cease recognition of the Association and cease giving effect to the contract entered into with the Association. The court stated its holding as follows:

> "The Act forbids interference by an employer with the rights of his employees to bargain collectively, and, for that purpose to select their own bargaining representative. When two unions are vieing for a majority support of his employees, an employer must, of course, maintain a position of strict neutrality. He must refrain from any action which tends to give either an advantage over its rival; he may do nothing which tends to coerce his employees to join or to refrain from joining a particular union. Recognition of one competitor as

bargaining agent during this contest period, *absent proof of majority support,* is a proscribed act. [Citations omitted.]

"The Act does not require, however, that this neutrality continue until the last dissident voice is stilled. Indeed, in keeping with the purpose of the Act, harmonious employer-employee relations require that the instability inherent in a contest end when one contestant is able to muster majority support. Although the prize of recognition must not be employed coercively to influence the employees in making their decision, *once indisputable proof of majority choice is presented to the employer, the Act imposes on him a duty to award recognition to the agent so chosen by his employees.* . . . The decisive question in any case is whether there has been an uninfluenced expression of majority will; it matters not how that will be expressed. Although the result of a secret election may well be the most convincing means of expression, the election medium is by no means exclusive. However expressed, an employer is bound by the employees' determination. In doing so, he should be free of charges of unfair labor practices absent substantial evidence indicative of bad faith." (*Id.,* at p. 503-504; emphasis added.)

In *N.L.R.B. v. Corning* (1st Cir. 1953), 204 F. 2d 422, despite simultaneous efforts by both C.I.O. and A.F. of L. unions to organize the respondent's employees, respondent, after a card showing of A.F. of L. majority interest recognized and contracted with that union. The court reversed the Board decision finding an unfair labor practice. The court stated as follows:

> same result follows when majority support for the recognized union exists, but has been achieved by coercion or some other unfair labor practice. But where a clear majority of the employees, without subjection to coercion or other unlawful influence, have made manifest their desire to be represented by a particular union, there is no factual basis for a contention that the employer's action thareafter in recognizing the union or contracting with it is an interference with their freedom of choice. This case is in this final category. [Citations omitted.]" (*Id.,* at p. 557.)

Applying the analysis in *Air Master Corp.* to the instant case, it is amply clear that the Board properly refused to invoke *Midwest Piping.* Petitioner makes no claim that the Joint Board represented only a minority of the snack bar employees, nor does the record contain evidence which could support a charge that the employee's choice was "demonstrably in doubt". Nor, of course is there any evidence that the Joint Board's majority interest was obtained by coercion or other unfair labor practice.

C. Application of Midwest Piping Is Inappropriate in the Instant Case Because Petitioner Never Attempted to Organize the Snack Bar Employees.

Application of the *Midwest Piping* doctrine in the instant case is inappropriate for a further reason. The policy which underlies that doctrine is one of insuring employer neutrality with respect to employee choice of bargaining representatives (*Midwest Piping Co., supra,* 63 N.L.R.B. 1060, 17 L.R.R.M. 40; *Sunbeam Corp.* (1952), 99 N.L.R.B. 546, 30 L.R.RM. 1094). The doctrine becomes relevant only when two or more unions

are vigorously soliciting employees and endeavoring to obtain their acceptance as a bargaining representative. In the instant case, with the exception of one visit to one Boy's location, Local 770 never directly solicited the employees. Local 770 made no efforts whatever to organize the snack bar employees. As stated by the Board in *Sunbeam Corporation, supra,* the *Midwest Piping* doctrine is applicable when "employees are simultaneously being organized by two or more labor organizations. . . ." (*supra,* 30 L.R.R.M. at 1096.)

The neutrality policy underlying the rule of *Midwest Piping* is not affected in a case in which the rival union is not even endeavoring to organize the employees themselves but is merely trying to incorporate them without vote or authority from them. In short, neutrality is not infringed unless two organizations are directly contesting for the employees themselves by direct organizational efforts made towards the employees. No "unwarranted prestige or advantage" (*Sunbeam Corporation, supra,* 30 L.R.RM. at p. 1096.) was afforded the Joint Board in its efforts to organize the employees, since Local 770 had made no significant overtures toward those employees. Application of the *Midwest Piping* doctrine to a situation in which there were no competing or conflicting organizational efforts directed at the employees themselves would represent an unreasonable extension of the doctrine.

D. The November-December, 1962, Correspondence Between Local 770 and Von's Did Not Create a Real Question of Representation Within the Meaning of the Midwest Piping Doctrine.

Intervenor intends to cover here the question of the effect of the 1962 correspondence between Von's and the Clerks.

The petitioner relied before the National Labor Relations Board upon its letter of November 23, 1962, in which Local 770 apparently claimed jurisdiction over certain employees working in the prepared foods take-out department of Von's Markets. Von's responded to that letter on December 4, 1962, stating its disagreement with the proposition that the employees were included within the coverage of the existing Retail Clerks Agreement. Following the employer's rejection of the claim of inclusion, Local 770 did nothing for approximately eight months about its purported claim of jurisdiction. Such letters do not constitute the type of "active and continuous claim"[3] of a majority representation required to invoke *Midwest Piping.* Indeed, the November 23rd letter represented at best a naked assertion of jurisdiction in an area in which such assertion was entirely unwarranted (See Argument II, *infra*).

II.

The Request by Local 770 for Expansion of Its Unit to Cover Snack Bar Employees, Without Giving Those Employees the Right to Vote, Constituted a Violation of Sections 8(a)(1) and (3) of the Act.

Petitioner's contention that its request to expand their market unit to encompass snack bar employees created a real question concerning representation is all the more difficult to sustain because that request was illegal, and the contract subsequently entered into covering previously nonrepresented snack bar employees, without their consent, was an illegal contract. (*Wolfer Printing*

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[3] *Novak Logging Co.* (1958), 119 N.L.R.B. 196, 197, 41 L.R.R.M. 1346, 1347.

(1964), 145 N.L.R.B. 70, 55 L.R.RM. 1025; *Atlantic Freight Lines* (1956), 117 N.L.R.B. 464, 39 L.R.R.M. 1256.)[4]

In *Wolfer Printing, supra,* a Local of the Pressmen's Union had a long standing contract with Wolfer Printing covering only pressmen. After 11 years of contractual relations between the parties covering pressmen, the parties signed an addendum to their contract extending the coverage to offset press employees who had previously not been covered. The Board held that by extending the contract to offset employees, without giving these employees an opportunity to decide whether or not they wished to join the Pressmen's Union, the employer violated Sections 8(a)(1), (2) and (3) of the Act.

In *Atlantic Freight Lines, supra,* the Union attempted to force an employer to expand his unit of truck drivers to include maintenance employees, without giving those maintenance employees the right to vote. The Board, in striking down the Union contract as unlawful, stated, in part:

> "It is settled policy of the Board not to sanction enlargement of an established bargaining unit by the addition of excluded distinct minority groups like maintenance and service employees involved,

---

[4]A National Labor Relations Board Trial Examiner presently has under submission a complaint of the General Counsel charging Local 770, the Council, and certain retail food markets with an unfair labor practice in executing the 1964-1967 Clerks contract. The gravamen of the charge lies in the contention that the inclusion of the snack bar employees, without giving then an opportunity to select their bargaining representative, denied them basic rights to self-determination under Section 1 of the National Labor Relations Act. (29 U.S.C. 151). The case is designated by the National Labor Relations Board as Nos. 31-CA-146 and 31-CB-35.)

> without first giving the minority groups the opportunity to express their preference as to whether or not they desire representation by the current bargaining agent, particularly where, as here, the minority groups might alone constitute separate bargaining units. (Zia Company 108 N.L.R.B., 34 L.R.R.M. 1133)".

Here there is no question that the snack bar employees would constitute a separate bargaining unit. The Board so held in *Piggly Wiggly of California* (1963), 144 N.L.R.B. 708, 54 L.R.R.M. 1119.

In view of the foregoing, to hold that Local 770's request for an expansion of its unit created a question of representation would be to sanction and encourage the illegal request of Local 770 which led to its illegal contract.

Conclusion.

For the reasons stated above, the intervenor requests the Court to dismiss the petition to review the order of the National Labor Relations Board.

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By Loren R. Rothschild,

Attorneys for Intervenor.

Certificate.

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion the foregoing brief is in full compliance with those rules.

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August 9, 1966

RECEIVED
AUG 15 1966
WM. B. LUCK, CLERK

William B. Luck, Clerk
United States Court of Appeals
For the Ninth Circuit
P.O. Box 547
San Francisco, California

Re: Retail Clerks Union, Local 770 v. National Labor Relations Board, No. 20655

Dear Mr. Luck:

Subsequent to the filing herein of the Brief of Intervenor, Los Angeles Joint Executive Board of Hotel & Restaurant Employees and Bartenders Union, a National Labor Relations Trial Examiner rendered his decision in the cases of Food Employers Council, Inc., et al., (N.L.R.B. Case Nos. 31 CA 146 and 31 CB 35) which cases were referred to in footnote 4 at page 11 of the Brief of Intervenor.

The decision of the Trial Examiner directly supports the arguments contained at pages 10 through 12 of the Brief of Intervenor. The trial examiner held as follows:

> "By extending the contract of April 1, 1964, which includes a union security provision, to cover snack bar employees, at a time when respondent Clerks did not represent a majority of such employees, respondent Council and respondent Clerks unlawfully infringed upon the right of the snack bar employees to express a free choice of their bargaining representative." (Emphasis added.)

FEB 14 1967

The Trial Examiner's decision thus supplies direct support for Intervenor's contention that the request by Local 770 to the Council to expand its market unit to cover snack bar employees violated the National Labor Relations Act. (Intervenor's Brief, p. 10-12) The Trial Examiner has ruled that the contract, which represented the culmination of the Clerk's request, was illegal insofar as it included snack bar employees.

FILED
SEP 12 1966
WM. B. LUCK, CLERK

We therefore respectfully request that the Court include this supplemental citation in its consideration of this matter.

For the convenience of the Court we are enclosing herewith 20 copies of the above mentioned decision of the Trial Examiner in National Labor Relations Case Nos. 31 CA 146 and 31 CB 35..

Very truly yours,

Loren R. Rothschild
of BODLE & FOGEL

LRR:cj

Enclosures

UNITED STATES OF AMERICA
BEFORE THE NATIONAL LABOR RELATIONS BOARD
DIVISION OF TRIAL EXAMINERS
BRANCH OFFICE
SAN FRANCISCO, CALIFORNIA

FOOD EMPLOYERS COUNCIL, INC.

Respondent Employer

and

LOS ANGELES JOINT EXECUTIVE BOARD OF HOTEL AND RESTAURANT EMPLOYEES AND BARTENDERS UNIONS, AFL-CIO; HOTEL, MOTEL, RESTAURANT EMPLOYEES AND BARTENDERS UNION, LOCAL 694, AFL-CIO

Charging Parties

and

THRIFTIMART, INC., GREAT A. & P. TEA CO., CRAWFORD STORES, LUCKY STORES, INC., HUGHES MARKETS, VON'S GROCERY CO., AND SAFEWAY STORES, INC.

Parties to the Contract

Case No. 31-CA-146
(Formerly 21-CA-6125)

RETAIL CLERKS UNION, LOCAL 770
(Food Employers Council, Inc.)

Respondent Union

and

LOS ANGELES JOINT EXECUTIVE BOARD OF HOTEL AND RESTAURANT EMPLOYEES AND BARTENDERS UNIONS, AFL-CIO; HOTEL, MOTEL, RESTAURANT EMPLOYEES AND BARTENDERS UNION, LOCAL 694, AFL-CIO

Charging Parties

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THRIFTIMART, INC., GREAT A. & P. TEA CO., CRAWFORD STORES, LUCKY STORES, INC., HUGHES MARKETS, VON'S GROCERY CO., AND SAFEWAY STORES, INC.

Parties to the Contract

Case No. 31-CB-35
(Formerly 21-CB-2378)

UNITED STATES OF AMERICA
BEFORE THE NATIONAL LABOR RELATIONS BOARD
DIVISION OF TRIAL EXAMINERS
BRANCH OFFICE
SAN FRANCISCO, CALIFORNIA

FOOD EMPLOYERS COUNCIL, INC.

Respondent Employer

and

Case No. 31-CA-146
(Formerly 21-CA-6125)

LOS ANGELES JOINT EXECUTIVE BOARD OF HOTEL AND RESTAURANT EMPLOYEES AND BARTENDERS UNIONS, AFL-CIO; HOTEL, MOTEL, RESTAURANT EMPLOYEES AND BARTENDERS UNION, LOCAL 694, AFL-CIO

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RETAIL CLERKS UNION, LOCAL 770
(Food Employers Council, Inc.)

Respondent Union

and

Case No. 31-CB-35
(Formerly 21-CB-2378)

LOS ANGELES JOINT EXECUTIVE BOARD OF HOTEL AND RESTAURANT EMPLOYEES AND BARTENDERS UNIONS, AFL-CIO; HOTEL, MOTEL, RESTAURANT EMPLOYEES AND BARTENDERS UNION, LOCAL 694, AFL-CIO

Charging Parties

and

THRIFTIMART, INC., GREAT A. & P. TEA CO., CRAWFORD STORES, LUCKY STORES, INC., HUGHES MARKETS, VON'S GROCERY CO., AND SAFEWAY STORES, INC.

Parties to the Contract

Stanley S. Sadur, of Los Angeles,
Calif., for the General Counsel.
Joseph M. McLaughlin, of Los Angeles,
Calif., for Respondent Council.
Arnold, Smith & Schwartz, by
Kenneth M. Schwartz, of Los Angeles,
Calif., for Respondent Clerks.
Kessler & Drasin, by Lawrence Drasin,
of Los Angeles, Calif., for the
Charging Party, Local 694.
Bodle & Fogel by Loren Rothschild,
of Los Angeles, Calif., for the
Charging Party, Joint Board.

Before: David Karasick, Trial Examiner.

TRIAL EXAMINER'S DECISION

Statement of the Case

This matter was heard at Los Angeles, California, on January 25 and 26, 1966. The complaint 1/ alleges that Food Employers Council, Inc., herein called Respondent Council and Retail Clerks Union, Local 770, herein called Respondent Clerks, and collectively called herein the Respondents, have engaged in unfair labor practices within the meaning of Section 8(a)(1), (2) and (3) and Section 8(b)(1)(A) and 8(b)(2) of the Act.

Upon the entire record in the case, 2/ and from my observations of the witnesses, I make the following:

Findings of Fact

I. The business operations of the employers

Respondent Council is a nonprofit corporation composed of employer-members, most of whom are engaged in the retail food market business in Southern California. Since about 1941, Respondent Council has bargained collectively for its members and has negotiated master collective-bargaining agreements with labor organizations, including Respondent Clerks.

The employer-members of Respondent Council during the course of their retail operations annually do a gross volume of business in excess of $500,000 and annually purchase and receive directly from points and places located outside the State of California goods and products valued in excess of $50,000.

Thriftimart, Inc., an employer-member of Respondent Council for the purposes of collective bargaining, operates retail food stores in the Southern California area, including stores at 2600 South Vermont Avenue, Los Angeles, California, and 20934 Roscoe Boulevard, Canoga Park, California, its only stores involved in this proceeding.

1/ The complaint was issued on November 16, 1965 following the filing of charges jointly by Local 694 and the Joint Board on August 20, 1964 in Cases Nos. 21-CA-6125 and 21-CB-2378 and first amended charges filed jointly by the same parties on September 3, 1965 in Cases Nos. 31-CA-146 and 31-CB-35.

2/ The unopposed post-hearing motion of the General Counsel to correct errors in the transcript is hereby granted.

Great A. & P. Tea Co., an employer-member of Respondent Council for the purposes of collective bargaining, operates retail food stores in the Southern California area, including a store located at 1835 South LaCienega Boulevard, Los Angeles, California, its only store involved in this proceeding.

Crawford Stores, an employer-member of Respondent Council for the purposes of collective bargaining, operates retail food stores in the Southern California area, including a store located at 1421 East Valley Boulevard, Alhambra, California, its only store involved in this proceeding.

Lucky Stores, Inc., an employer-member of Respondent Council for the purposes of collective bargaining, operates retail food stores in the Southern California area, including a store located at 10721 Atlantic Avenue, Lynwood, California, its only store involved in this proceeding.

Hughes Markets, an employer-member of Respondent Council for the purposes of collective bargaining, operates retail food stores in the Southern California area, including stores located at 14440 Burbank Boulevard, Van Nuys, California, 16940 Devonshire, Granada Hills, California, 4520 Van Nuys Boulevard, Sherman Oaks, California, 1100 North San Fernando Road, Burbank, California, and 10400 North Sepulveda, Mission Hills, California, its only stores involved in this proceeding.

Von's Grocery Co., an employer-member of Respondent Council for the purposes of collective bargaining, operates retail food stores in the Southern California area, including a store located at 6921 La Tijera Boulevard, Los Angeles, California, its only store involved in this proceeding.

Safeway Stores, Inc., was, until January 1965, an employer-member of Respondent Council for the purposes of collective bargaining, operates retail food stores in the Southern California area, including a store located at 4707 Venice Boulevard, Los Angeles, California, its only store involved in this proceeding.

Respondent Council and Thriftimart, Inc., Great A. & P. Tea Co., Crawford Stores, Lucky Stores, Inc., Hughes Markets, Von's Grocery Co., and Safeway Stores, Inc., each is, and has been at all times material herein, individually and collectively, an employer engaged in commerce and in a business affecting commerce within the meaning of Section 2(2), (6) and (7) of the Act.

II. The labor organizations involved

Los Angeles Joint Executive Board of Hotel and Restaurant Employees and Bartenders unions, AFL-CIO, herein called the Joint Board; Hotel, Motel, Restaurant Employees and Bartenders Unions, Local 694, AFL-CIO, herein called Local 694; and the Respondent clerks are labor organizations within the meaning of Section 2(5) of the Act.

III. The unfair labor practices alleged

A. The issue

These proceedings arise as the result of a dispute between Respondent Clerks and Local 694 and the Joint Board over the right to represent snack bar employees of the employer-members of Respondent Council who are parties to a collective bargaining agreement entered into on their behalf by Respondent Council with Respondent Clerks. The primary issue is whether Respondent Council and Respondent Clerks were justified in extending the terms of their contract, which covered retail clerks of food markets in a multi-employer unit, to include snack bar employees of some of the employers at a time when Respondent Clerks did not represent a majority of the snack bar employees although it did represent a majority of the over-all group of employees covered by the contract.

B. The facts

The seven employer-members of Respondent Council involved in these proceedings operate retail food markets in Southern California and at all times material herein have been parties to a contract, entered into on their behalf by Respondent Council with Respondent Clerks, effective for a five year term from April 1, 1964 through March 31, 1969. This contract covers retail clerks who are engaged in food, bakery, candy and general merchandise operations and supersedes an earlier agreement between the same parties which ran from January 1, 1959 through March 31, 1964. At the time the earlier agreement was executed, no snack bars were in existence but during its term some of the employers who were parties to the agreement established such bars. 3/ However, the employees of these snack bars were not represented by Respondent Clerks. The contract of April 1, 1964 for the first time included snack bar employees in the unit, together with other categories of employees.

At the time the present contract was executed, Respondent Clerks did not represent a majority of the snack bar employees, as distinguished from the over-all group of employees covered. However, the Joint Board or Local 694 did then and presently does represent snack bar employees of some, but not all, of the employer-members of the Respondent Council who are parties to the April 1, 1964 contract. The existing agreement expressly excludes culinary employees who are represented by the Joint Board or Local 694. 4/ The General Counsel and the Charging Parties contend that the snack bars constitute a distinct and separate operation and that the snack bar employees were entitled to determine for themselves in an election whether they wish to be in-

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3/ See The Boy's Markets, Inc., et al, 156 NLRB No. 6.

4/ The contract also expressly excludes from its coverage meat department employees and janitorial and maintenance personnel, both of which groups are represented by other unions.

cluded in the over-all unit. The Respondents, on the other hand, assert that the employees of the snack bars constitute an accretion to the pre-existing unit and were therefore properly covered by the terms of the April 1, 1964 agreement.

The parties stipulated that the snack bars involved in these proceedings prepare food which in some cases is consumed at counters or tables on the premises of the retail market in which the snack bar is located and on other occasions is consumed elsewhere; that the snack bars are located outside of the area of the check stands in the markets; that all purchases made at the snack bars are paid for at the snack bar registers; that there are no other employees in the stores or markets who perform the type of work done at the snack bars, although in emergencies clerks, clerks' helpers or box boys will relieve snack bar employees; that there is no interchange of employees between the snack bars and other departments of the stores, although on occasion snack bar employees have moved to other jobs within the stores; and that there is a department manager who has authority over the snack bars and who is responsible in turn to the store manager.

An examination of the provisions of the existing contract shows that the hours, wages and working conditions of snack bar employees are different from those of the other employees. Thus, split shifts are permitted for snack bar employees but prohibited for all other employees. A guarantee of 8 hours work at a Sunday premium rate of pay which is applicable to all retail clerks, except part-time clerks' helpers, is not applicable to snack bar employees. Employees of snack bars which operate as such exclusively receive the same wages as those accorded clerks' helpers but the present agreement provides that future wage increases shall either be the same as those negotiated for clerks' helpers "or those negotiated by the hotel and restaurant industry, whichever are greater". Snack bar employees are entitled to meals while other employees are not.

C. Concluding findings

The evidence thus shows that snack bar employees are engaged in a different type of work than that performed by the retail clerks in the food markets, that there is no interchange between such employees; that the snack bars are located outside the check stands of the markets and thus are physically separated from the areas where the other retail clerks work; that the snack bar employees are under separate supervision; that they may work split shifts; and that premium rates of pay for Sunday work are not applicable to them. It is thus clear that the terms and conditions of employment of snack bar employees are different from those of the retail clerks and that they have a community of interest apart from them. 5/

5/ See Piggly Wiggly California Company, 144 NLRB 708, 711. That case and The Boy's Markets, Inc. et al, 156 NLRB No. 6, both concern themselves with other questions arising as a result of the dispute between the Respondents and the Charging Parties in these proceedings in regard to the representation of snack bar employees.

Upon the foregoing facts and upon the record as a whole, I find that the snack bars were not an accretion to the existing unit but instead constituted a separate and distinct operation. By extending the contract of April 1, 1964, which includes a union-security provision, to cover snack bar employees, at a time when Respondent Clerks did not represent a majority of such employees, Respondent Council and Respondent Clerks unlawfully infringed upon the right of the snack bar employees to express a free choice of their bargaining representative. In so doing Respondent Council violated Section 8(a)(1), (2) and (3) and Respondent Clerks violated Section 8(b)(1)(A) and 8(b)(2) of the Act. 6/

IV. Conclusions of law

1. Respondent Council and its employer-members named herein are, individually and collectively, an employer engaged in commerce within the meaning of Section 2(2), (6) and (7) of the Act.

2. Respondent Clerks is a labor organization within the meaning of Section 2(5) of the Act.

3. By applying the terms of the union-security contract of April 1, 1964 to the snack bar employees of the employer-members of Respondent Council, not otherwise covered by a collective bargaining agreement with another union, as mentioned above in Section III, Respondent Council has engaged in and is engaging in unfair labor practices within the meaning of Section 8(a)(1), (2) and (3) of the Act and Respondent Clerks has engaged in unfair labor practices within the meaning of Section 8(b)(1)(A) and 8(b)(2) of the Act.

4. The aforesaid unfair labor practices affect commerce within the meaning of Section 2(6) and 7 of the Act.

V. The remedy

Having found that the Respondents have engaged in unfair labor practices, I shall recommend that they cease and desist therefrom and that they take certain affirmative action designed to effectuate the policies of the Act.

6/ See Dura Corporation, 153 NLRB No. 54; Danker & Sellew Inc., 140 NLRB 824 enf'd 330 F. 2d (C.A. 2); Wolfer Printing Co., Inc., 145 NLRB 695. In view of the conclusions reached herein, I do not regard it as necessary to determine whether the over-all unit of retail clerks which includes all snack bar employees except those already represented by another union is inappropriate, as the Joint Council contends in its brief. The basic issue in these proceedings is whether the extension of recognition with respect to a specific group of employees was lawful, irrespective of the appropriateness of the unit set forth in the contract. See Bernhard-Altmann Texas Corporation, 122 NLRB 1289, 1291.

It shall be recommended, that Respondent Council withdraw all recognition from Respondent Clerks as collective-bargaining representative pursuant to the terms of the collective bargaining agreement of April 1, 1964, unless and until Respondent Clerks shall have been duly certified by the Board as such representative. It further shall be recommended that Respondent Council cease and desist from giving any force or effect to the said collective bargaining agreement executed and maintained by the Respondents, insofar as said agreement has been extended to cover snack bar employees, or to any modification, extension, supplement, or renewal thereof. However, nothing herein shall be construed as requiring Respondent Council or its employer-members to vary or abandon any wage, hour, seniority, or other substantive feature of their relations with their employees which have been established in the performance of said contract.

It also shall be recommended that Respondent Clerks cease and desist from acting as the collective bargaining representative of the snack bar employees of the employer-members of Respondent Council, unless and until Respondent Clerks shall have been duly certified by the Board as such representative, and that it shall refrain from seeking to enforce the collective bargaining agreement executed and maintained by the Respondents insofar as snack bar employees are concerned. 7/

The General Counsel urges in addition that the Respondents be required, jointly and severally, to reimburse the snack bar employees for all initiation fees, dues or other obligations paid by them pursuant to the provisions of the collective bargaining agreement in question. There is no evidence that the snack bar employees were coerced into joining or into signing check-off authorizations running to Respondent Clerks. In the absence of such evidence, the order sought by the General Counsel is unwarranted. 8/

RECOMMENDED ORDER

Upon the entire record in these proceedings, and the foregoing findings of fact and conclusions of law, it is recommended that Respondent Food Employers Council, Inc., its officers, agents, successors, and assigns, shall:

1. Cease and desist from:

(a) Contributing support to Retail Clerks Union, Local 770, or to any other labor organization of its employees.

(b) Recognizing Retail Clerks Union, Local 770, as the representative of the snack bar employees of its employer-members who are parties to the collective bargaining agreement of April 1, 1964, covering retail food, bakery, candy and general merchandise clerks, for the purpose of dealing with Food Employers Council, Inc., on behalf of its employer-members, con-

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7/ Ellery Products Manufacturing Co., Inc., 149 NLRB 1388; Dura Corporation, 153 NLRB No. 54.

8/ Duralite Co., Inc., 132 NLRB 425, 429; Couch Electric Company et al.; 143 NLRB 662. Cf. Gladys A. Juett, etc., 137 NLRB 395; Wolfer Printing Co., Inc., 145 NLRB 695, 702.

cerning grievances, labor disputes, wages, rates of pay, hours of employment, or other conditions of employment, unless and until said labor organization shall have demonstrated its exclusive majority representative status pursuant to a Board-conducted election among said snack bar employees.

(c) Giving effect to the aforementioned collective bargaining agreement or to any extension, renewal, or modification thereof; provided, however, that nothing in the order here recommended shall require Food Employers Council, Inc. or its employer-members, to vary or abandon any wage, hour, seniority, or other substantive feature of said employer-members' relations with snack bar or other employees which have been established in the performance of the aforesaid collective bargaining agreement or to prejudice the assertion by the snack bar employees of any rights they may have thereunder.

(d) Encouraging membership in Retail Clerks Union, Local 770, or in any other labor organization, by conditioning the hire or tenure of employment or any term or condition of employment upon membership in, affiliation with, or dues payments to, any such labor organization, except as authorized in Section 8(a)(3) of the National Labor Relations Act, as amended.

(e) In any like or related manner interfering with, restraining, or coercing employees in the exercise of the rights guaranteed them in Section 7 of the Act.

2. Take the following affirmative action designed to effectuate the policies of the Act:

(a) Withdraw and withhold all recognition from Retail Clerks Union, Local 770, as the exclusive representative of the snack bar employees of its employer-members who are parties to the aforesaid collective bargaining agreement for the purposes of collective bargaining unless and until said labor organization has been duly certified by the National Labor Relations Board as the exclusive representative of such employees.

(b) Notify all snack bar employees of its employer-members that they need not join or maintain membership in Retail Clerks Union, Local 770, pursuant to the aforesaid agreement, as a condition of employment.

(c) Post at the food markets of each of the employer-members who are parties to these proceedings 9/ copies of the attached notice marked "Appendix A." 10/ Copies of said

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9/ N.L.R.B. v. E. F. Shuck Construction Company, Inc., et al., 243 F. 2d 519 (C.A. 9).

10/ In the event that this Recommended Order be adopted by the Board, the words "A DECISION AND ORDER" shall be substituted for the words "THE RECOMMENDED ORDER OF A TRIAL EXAMINER" in the notice. In the further event that the Board's order be enforced by a decree of a United States Court of Appeals, the words "A DECREE OF THE UNITED STATES COURT OF APPEALS ENFORCING AN ORDER," shall be substituted for the words "A DECISION AND ORDER."

notice, to be furnished by the Regional Director for the Thirty-First Region, shall, after having been duly signed by an authorized representative of Respondent Food Employers Council, Inc., be posted by said Respondent immediately upon receipt thereof, and be maintained for 60 consecutive days thereafter, in conspicuous places, including all places where notices to employees are customarily posted. Reasonable steps shall be taken to assure that said notices are not altered, defaced, or covered by any other material.

(d) Notify the aforesaid Regional Director, in writing, within 20 days from the date of service of this Trial Examiner's Decision, what steps said Respondent has taken to comply herewith. <u>11/</u>

Respondent, Retail Clerks Union, Local 770, its officers, agents, representatives, successors, and assigns, shall:

1. Cease and desist from:

(a) Causing or attempting to cause Respondent Food Employers Council, Inc., or its employer-members, to discriminate against snack bar employees by giving effect to its agreement of April 1, 1964, or to any extension, renewal, or modification thereof.

(b) Causing or attempting to cause Respondent Food Employers Council, Inc., or its employer-members who are parties to the collective bargaining agreement of April 1, 1964, to discriminate against snack bar employees by conditioning their hire or tenure of employment or any term or condition of employment upon membership in, affiliation with, or dues payment to, Respondent Retail Clerks Union, Local 770, except as authorized in Section 8(a)(3) of the National Labor Relations Act, as amended.

(c) In any like or related manner restraining or coercing snack bar employees of Respondent Food Employers Council, Inc., or its employer-members who are parties to the aforesaid collective bargaining agreement of April 1, 1964 in the exercise of the rights guaranteed them in Section 7 of the Act, except to the extent that such rights may be affected by an agreement requiring membership in a labor organization as a condition of employment, as authorized in Section 8(a)(3) of the National Labor Relations Act, as amended.

2. Take the following affirmative action which will effectuate the policies of the Act:

(a) Post at its offices and meeting halls copies of the attached notice marked "Appendix B". <u>12/</u> Copies of said notice, to by furnished by the Regional Director for the Thirty-first Region, shall, after being duly signed by an authorized representative of Respondent Retail Clerks Union, Local 770, be

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<u>11/</u> In the event that this Recommended Order be adopted by the Board, this provision shall be modified to read: "Notify said Regional Director, in writing, within 10 days from the date of this order, what steps the Respondent has taken to comply herewith."

<u>12/</u> See footnote <u>10/</u>, <u>supra</u>.

posted by it immediately upon receipt thereof, and be maintained by it for 60 consecutive days thereafter, in conspicuous places, including all places where notices to members are customarily posted. Reasonable steps shall be taken to insure that said notices are not altered, defaced, or covered by any other material.

(b) Mail to the Regional Director for the Thirty-first Region signed copies of the attached notice marked "Appendix B" for posting by Respondent Food Employers Council, Inc., at the food markets of each of the employer-members who have been made parties to these proceedings, as provided herein. Copies of said notice, to be furnished by the Regional Director, shall, after being duly signed by an authorized representative of Respondent Retail Clerks Union, Local 770, be forthwith returned for such posting.

(c) Post at the same places, and under the same conditions as set forth in (b) immediately above, as soon as they are forwarded by the Regional Director, copies of Respondent Food Employers Council, Inc.'s attached notice marked "Appendix A".

(d) Notify said Regional Director, in writing, within 20 days from the date of the service of this Trial Examiner's Decision, what steps said Respondent has taken to comply herewith. 13/

It is further recommended that unless, within said 20 day period, the Respondents shall have notified said Regional Director, in writing, that they will comply with the foregoing Recommended Order, the National Labor Relations Board issue an order requiring the Respondents to take the action aforesaid.

Dated: JUL 22 1966

David Karasick

David Karasick
Trial Examiner

13/ See footnote 11/, supra.

APPENDIX A

NOTICE TO ALL SNACK BAR EMPLOYEES OF THRIFTIMART, INC.; GREAT A. & P. TEA CO.; CRAWFORD STORES; LUCKY STORES, INC.; HUGHES MARKETS; VON'S GROCERY CO.; AND SAFEWAY STORES, INC.

PURSUANT TO

A RECOMMENDED ORDER OF A TRIAL EXAMINER

of the National Labor Relations Board, and in order to effectuate the policies of the National Labor Relations Act, as amended, we hereby notify you that:

WE WILL NOT recognize Retail Clerks Union, Local 770, as the exclusive bargaining representative of snack bar employees of the employer-members of Food Employers Council, Inc., who are parties to the contract of April 1, 1964, unless and until that Union has been certified by the National Labor Relations Board.

WE WILL NOT give effect to our agreement of April 1, 1964 with Local 770, or to any extension, renewal or modification thereof, to the extent that said agreement purports to cover snack bar employees, and we will not require that said snack bar employees be or become members of Local 770, as a condition of employment pursuant to the provisions of the foresaid agreement with that Union. The law does not require us, however, to give up or to vary the wages, hours, seniority, or other working conditions now in effect by reason of said contract.

WE WILL NOT contribute support to Local 770, or to any other labor organization of our employees.

WE WILL NOT encourage membership in Local 770, or in any other labor organization, by conditioning the hire or tenure of employment or any term or condition of employment upon membership in, affiliation with, or dues payments to, any such labor organization, except as authorized by Section 8 (a)(3) of the National Labor Relations Act, as amended.

WE WILL NOT in any like or related manner interfere with, restrain, or coerce employees in the exercise of their rights guaranteed in Section 7 of the Act.

All employees are free to become, to remain or to refrain from becoming or remaining, members of the above-named labor organization or any other labor organization.

FOOD EMPLOYERS COUNCIL, INC.
by and on behalf of:
THRIFTIMART, INC.; GREAT A. & P. TEA CO.;
CRAWFORD STORES; LUCKY STORES, INC.;
HUGHES MARKETS; VON'S GROCERY CO.; AND
SAFEWAY STORES, INC. ....
(Employer)

Dated .... By .... (Representative) .... (Title)

This Notice must remain posted for 60 consecutive days from the date of posting, and must not be altered, defaced, or covered by any other material.

If employees have any question concerning this Notice or compliance with its provisions,

APPENDIX B

NOTICE TO ALL SNACK BAR EMPLOYEES OF THRIFTIMART, INC.; GREAT A. & P. TEA CO.; CRAWFORD STORES; LUCKY STORES, INC.; HUGHES MARKETS; VON'S GROCERY CO.; AND SAFEWAY STORES, INC.

PURSUANT TO

THE RECOMMENDED ORDER OF A TRIAL EXAMINER

of the National Labor Relations Board and in order to effectuate the policies of the National Labor Relations Act, as amended, we hereby notify you that:

WE WILL NOT give effect to the collective bargaining agreement of April 1, 1964 between Food Employers Council, Inc., on behalf of the above-named employers, and ourselves to the extent that such agreement seeks to cover snack bar employees of employer-members of Food Employers Council, Inc. who are parties to the agreement.

WE WILL NOT act as the exclusive bargaining representative of snack bar employees of the employer-members of Food Employers Council, Inc. who are parties to the collective bargaining agreement of April 1, 1964, or any extension, renewal or modification thereof, unless and until we have been duly certified by the National Labor Relations Board as the exclusive representative of said snack bar employees. The law does not require, however, that any change be made in the wages, hours, seniority, or other working conditions now in effect by reason of that contract.

WE WILL NOT cause or attempt to cause Food Employers Council, Inc., or its employer-members who are parties to the collective bargaining agreement of April 1, 1964, to discriminate against snack bar employees by conditioning their hire or tenure of employment or any term or condition of employment upon membership in, affiliation with, or dues payments to, Local 770, except as authorized in Section 8(a)(3) of the National Labor Relations Act, as amended.

WE WILL NOT in any like or related manner restrain or coerce the snack bar employees of the employer-members of Food Employers Council, Inc., who are parties to the collective bargaining agreement of April 1, 1964, in the exercise of the rights guaranteed them in Section 7 of the Act.

RETAIL CLERKS UNION, LOCAL 770
(Labor Organization)

Dated________________ By______________________________
(Representative) (Title)

This notice must remain posted for 60 days from the date of posting, and must not be altered, defaced, or covered by any other material.

In the event of any question concerning this notice or compliance with its provisions, employees may communicate directly with the Board's Regional Office, 10th Floor, Bartlett Building, 215 West Seventh Street, Los Angeles, California 90014 (Tel. No. 688-5840).

No. 20662

United States
COURT OF APPEALS
for the Ninth Circuit

JEDDELOH BROTHERS SWEED MILLS,
INC., a Corporation,
OTTO JEDDELOH, FRED JEDDELOH,
Appellants,
v.

COE MANUFACTURING COMPANY,
a Corporation,
Appellee,

COE MANUFACTURING COMPANY,
a Corporation,
Appellee and Cross-Appellant,
v.

JEDDELOH BROTHERS SWEED MILLS,
INC., a Corporation,
OTTO JEDDELOH, FRED JEDDELOH,
Appellants and Cross-Appellees.

Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

OPENING BRIEF FOR APPELLANTS AND CROSS-APPELLEES

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The record in this case comprises four volumes:

Vol. I Printed record in prior appeal No. 17055.

Vol. II Book of exhibits in prior appeal No. 17055.

Vol. III Xerox copy of Clerk's record in present appeal.

Vol. IV Xerox copy of transcript of hearings in present appeal.

Citations to material in the above-identified volumes will be to a Roman numeral followed by a decimal number which indicates the volume and page, e.g., II.27 refers to Vol. II, page 27.

The following abbreviations are used:

PX plaintiff's exhibit.

DX defendants' exhibit.

App. followed by a number refers to a page in the appendix to this brief.

For convenience, a copy of the patent in suit (PX 2, II.332), patent drawings of the accused machine (DX 123, II.588) and a copy of defendants' rejected exhibit 129 are included at the back of this brief at App. 5, 20, 3-4, respectively.

All emphasis throughout this brief is ours, unless otherwise indicated.

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No. 20662

United States
COURT OF APPEALS
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JEDDELOH BROTHERS SWEED MILLS, INC., a Corporation, OTTO JEDDELOH, FRED JEDDELOH,
Appellants,

v.

COE MANUFACTURING COMPANY, a Corporation,
Appellee,

COE MANUFACTURING COMPANY, a Corporation,
Appellee and Cross-Appellant,

v.

JEDDELOH BROTHERS SWEED MILLS, INC., a Corporation, OTTO JEDDELOH, FRED JEDDELOH,
Appellants and Cross-Appellees.

Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

OPENING BRIEF FOR APPELLANTS AND CROSS-APPELLEES

JURISDICTION

This is a suit for infringement of United States Letters Patent Re. 24,638.[1] Jurisdiction of the District

[1] Supplemental Complaint, I.3.

Court was founded on 28 U.S.C. § 1338(a) and 35 U.S.C. § 281. A judgment of the District Court was entered on May 21, 1965[2] and a motion for new trial or amendment of judgment was filed on June 1, 1965.[3] An order denying the motion for new trial and amendment of judgment was entered August 16, 1965,[4] but that order was vacated by an order entered August 26, 1965.[5] On October 6, 1965, the District Court entered judgment and order fixing reasonable royalty specifying, paragraph (3), that defendants give notice of appeal and file supersedeas bond on or before October 16, 1965.[6] On October 14, 1965, the District Court approved defendants' supersedeas bond[7] and defendants filed their notice of appeal.[8] Plaintiff filed its notice of cross-appeal on October 19, 1965.[9]

Jurisdiction of this Court is invoked under 28 U.S.C. §§ 1291 and 1294(1).

STATEMENT OF THE CASE

This brief is in support of defendants' appeal from a judgment entered by the District Court (Judge Solomon) holding valid and infringed claim 17 of Parker patent Re. 24,638, "Apparatus for Handling Veneer," which was reissued to plaintiff on April 21, 1959 on ap-

[2] III.27
[3] III.29
[4] III.40
[5] III.43
[6] III.49
[7] III.52
[8] III.50
[9] III.54

plication for reissue filed October 23, 1958, and awarding damages to plaintiff.

The history of this case goes back to 1958, and a chronological listing of certain important events follows:

Mar. 20, 1958:	Complaint filed under patent No. 2,649,182.
May 14, 1958:	Answer filed.
Oct. 23, 1958:	Application filed by plaintiff for reissue of patent No. 2,649,182.
Apr. 21, 1959:	Patent Re. 24,638 issued.
May 1, 1959	Supplemental complaint filed substituting patent Re. 24,638 for patent No. 2,649,182.
May 4, 1959:	Answer and counterclaim to supplemental complaint filed.
Dec. 29, 30, 31, 1959:	Trial in District Court.
Mar. 30, 1960:	First opinion by Judge Solomon.
May 18, 1960:	Notice of first appeal.
May 2, 1961:	Argument of first appeal.
June 29, 1962:	Opinion by Court of Appeals remanding case.
Dec. 7, 1962:	Trial on remand.
May 21, 1965:	Second opinion by Judge Solomon.
Oct. 6, 1965:	Judgment entered.
Oct. 14, 1965:	Notice of second appeal.

The Prior Opinions

The District Court's first opinion[10] was brief because it was very clear to the District Judge at that time that there was no infringement and he made no findings with respect to validity of the patent in suit.

On appeal this Court remanded for additional findings, particularly on validity because "the question of infringement of the claims in issue is a close one, at least with regard to claim 17."[11]

The District Court held another hearing and had the case under advisement for more than two years and "experienced much difficulty in arriving at conclusions with which I was satisfied."[12] The District Judge believed, erroneously we think, that this Court in effect directed him to find at least claim 17 to be infringed and that he had to do so even though he really didn't consider the claim infringed. Even after he handed down his opinion, the District Judge continued to have doubts concerning the correctness of his decision. At the hearing on June 14, 1965, he said:

> "THE COURT: I will tell you something, I was wrong before; I may be wrong again."[13]

At the hearing on June 15, 1965, he said:

> "THE COURT: What I said before is still applicable. I don't think this is a Chinese copy. You have no assurance that you are going to get the amount before a panel. I could name you a panel

[10] I.39
[11] 306 F.2d 455, 456; III.3
[12] III.5A
[13] IV.116

that would reverse this case without any hesitancy."[14]

The District Judge was also anxious to get rid of the case once and for all and despite his uncertainties made findings with respect to damages and required defendants to post a supersedeas bond for $165,000.00. At the hearing on June 18, 1965, the Court expressed itself as follows:

"THE COURT: Yes, because there is such a wide divergence between the Plaintiff and the Defendants. The damage issue in this case may require another appeal. Frankly, I am sick and tired of this case and once I get rid of it, I don't want to have it any more. I want the Court of Appeals to decide every issue that is possible to decide at one time.

"MR. KOLISCH: We will undoubtedly have arguments before you on the question of what methods should be taken into consideration on the damage question.

"THE COURT: Certainly; I may conclude that I think a royalty is the fairest method of assessing damages. On the basis of profit, the royalty rate may be less than the profit. In that event, I am sure the Plaintiff would appeal and ask for the loss of profit. I don't want it to come back here. I am going to set out with great particularity the precise basis on which I decide the damages and the reasons which motivated me in making that determination. Then if the Court of Appeals wants to amend, alter or set aside my findings, that's all right with me, but they will have to do it. I told

[14] IV.136

> you earlier that you're in pretty good shape when you appeal from my case because you will have better than a 50-50 chance. I feel a little better now because my percentage has gone the other way during the last few days. Most of the cases appealed from my decisions have been affirmed."[15]

In its prior opinion, this Court was principally concerned with the District Court's failure to make findings on the issue of validity. The cases relied upon in the opinion, *Helbush* v. *Finkle,* 9 Cir., 1948, 170 F.2d 41, and *Specialty Equipment & Mach. Corp.* v. *Zell Motor Car Co.,* 4 Cir., 1952, 193 F.2d 515, hold that it is the better practice for a district court to pass on the question of validity, as well as that of infringement, unless noninfringement is absolutely clear. This Court considered the question of infringement of claim 17 to be close and therefore it wished to have before it findings on validity. There was no requirement that the District Court make any new or different findings on infringement which this Court expressly approved when it said "Findings of fact and conclusions of law appropriate to the issues of infringement were entered but no findings or conclusions appropriate to the issue of validity were made."[16] All that was required of the District Court by way of new findings were those appropriate to the issue of validity.

The discussion of validity of the patent in the District Court's opinion indicates that it may have been overly influenced by what it considered to be the com-

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[15] IV.149, 150
[16] III.2

mercial success of plaintiff's machine.[17] In order for commercial success to have any significance at all it must be shown that whatever commercial success plaintiff's machines enjoyed was attributable to the patent itself. It is recognized that many factors other than the worth of a patent make for commercial success of a machine, not the least of which is plaintiff's position as the dominant manufacturer of plywood machinery.[18]

In distinguishing the Parker patent from the prior art, the District Court talked as if Parker were limited to a machine for feeding *veneer*.[19] While some of the claims in the patent are so limited, plaintiff selected for trial four claims which are not limited to veneer but broadly cover *any* material in sheet form for loading into a conveyor-type machine. It was clearly erroneous for the District Court to distinguish from patents such as Streeter 1,809,456,[20] Cross, 640,368[21] and Campbell 1,216,773[22] on the grounds that they related to wallboard, paper and tin plate rather than veneer. Furthermore, these patents expressly suggest the use of various types of sheet material[23] and even if they did not, it would not amount to patentable invention to use or adapt old machinery for use on different material. Se-

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[17] III.7, 8.

[18] *Heath* v. *Frankel*, 8 Cir., 1946, 153 F.2d 369, 371; *Foxboro Co.* v. *Taylor Instrument Companies*, 2 Cir., 1946, 157 F.2d 226, 233; III.7.

[19] III.7

[20] DX 110, II.446

[21] DX 101, II.354

[22] DX 105, II.396

[23] Streeter, col. 1, l. 38; see also the claims of Streeter, Cross Campbell.

lection or substitution of material for use in a machine is not patentable.[24]

The District Court found the Parker patent valid and said that even though all the elements of Parker "are old, in combination they achieved a significant new result which was something more than a mere advance in the efficiency or utility of a machine."[25] If the new result was "a mechanical feeding apparatus for *veneer* dryers,"[26] mentioned by the District Court, that is not what Parker claimed as his invention in the asserted claims. It is well established that in a case like the present one, it must be shown how the old elements functioned differently in the patented combination to produce an unexepected result.[27] This was never done and the opinion of the District Court does not even mention a single case on the subject.

The District Judge reaffirmed his first decision that claims 3, 5 and 7 of the Parker patent were not infringed but reversed himself with respect to claim 17 and held:

> "In my original opinion and findings I concluded that the accused apparatus did not have a vertically movable assembly at the infeed end. Upon re-examination I have concluded that I erred. I now find that the accused apparatus does have a vertically movable assembly or its full equivalent at the infeed

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[24] *Griffith Rubber Mills* v. *Hoffar,* 9 Cir., 1963, 313 F.2d 1, 3.
[25] III.8
[26] III.8
[27] *Great A. & P. Tea Co.* v. *Supermarket Equipment Corp.,* 1950, 340 U.S. 147; *Hutchinson* v. *Pacific Car & Foundry Company,* 9 Cir., 1963, 319 F.2d 756, 759.

end and that the accused apparatus does infringe Claim 17 of the patent in suit."[28]

In the accused equipment a separate machine for holding stacks of veneer in front of the feeder proper was held to be the full equivalent of the "vertically movable feed means having an entering end" called for in claim 17. The infringing "vertically movable assembly"[29] is a hoist, elevator or scissor lift which is a standard piece of equipment having uses other than with veneer feeders in plywood manufacturing plants.

The District Court's construction of claim 17 is clearly erroneous because it is contrary to the reasonable meaning of the claim and the teachings of the Parker patent. During prosecution in the Patent Office of the patent application which resulted in the original Parker patent, plaintiff took a position with respect to distinguishing claim 17 from prior art that conflicts with its present position. Furthermore, the District Court confused the language of claim 17 with that of claims 5 and 7.[30] The latter two claims do call for a "feed end unit comprising . . . a vertically movable assembly . . . ." Claim 17 more specifically calls for a "vertically movable feed means having an entering end . . . ."

Finally, the District Judge withdrew his designation of a "Special Master to determine the profits realized by defendants and the damages suffered by plaintiff." [31] The District Judge resolved the matter himself

[28] III.9
[29] This is the language of the Court and not claim 17.
[30] III.9
[31] III.11

on the basis of his finding of a reasonable royalty, and judgment was entered against each of the defendants requiring them to pay plaintiff royalties on all veneer dryer-feeding equipment which they sold, regardless of whether or not this equipment included an elevator.[32]

The Patented Machine

The title of Parker Re. 24,638 is "Apparatus for Handling Veneer." However, none of the asserted claims (3, 5, 7 or 17) are limited to apparatus for handling veneer but broadly cover equipment for feeding or loading any material in sheet form into a "conveyor type machine."

The Parker patent, reprinted at the back of this brief at App. 5 discloses two embodiments — a preferred embodiment Figs. 1-8,[33] and an alternative construction shown in Fig. 9.[34]

The preferred embodiment is made up of three units —a feed end unit *C*, a conveyor table *D*, and a discharge end unit *E*.[35]

These three units are shown in Fig. 1 in position between a stack of sheet material such as veneer *B* and the infeed end of a conveyor-type machine such as dryer *A*. Figure 3 is an enlarged view of the three units. Feed end unit *C* at the left of Figs. 1 and 3 has frame members 40-45 in which are supported infeed pinch rolls 34, 35.

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[32] III.48
[33] Col. 1, l. 60
[34] Col. 9, l. 20
[35] Col. 2, ll. 39-41

The mounting for rolls 34, 35 is connected by chain 106 to hoist motor 100 which controls vertical movement of the pinch rolls. The operator of the machine periodically operates hoist motor 100 to move rolls 34, 35 so as to maintain substantial horizontal alignment between the nip of the rolls (infeed end of machine) and the top of stacks *B* so that sheets may conveniently be pushed from the stacks to the infeed rolls. Conveyor table *D* comprises a plurality of belts 120 which are driven by roll 122 towards unit *E*. One end of conveyor table *D* hangs by levers 123 from projections 125 extending from the vertically movable infeed pinch roll assembly of unit *C*. The other end of conveyor *D* is mounted in discharge end unit *E* which is similar to infeed end unit *C*. A hoist motor 100′ through a chain 106′ controls vertical movement in the frame of unit *E* of a mount which supports outfeed pinch rolls 35′ and 122. As previously mentioned, roll 122 also serves as a driving roll for conveyor belts 120. Hoist motor 100′ is automatically operated to move the outfeed rolls vertically into alignment with decks 10, 11, 12, 13 of the dryer as each deck is ready to receive sheets. Operation of the feeder in timed relationship with the dryer is maintained by means of a synchronizing unit 140 which is connected to the drive for the decks of the dryer.

The patented machine operates as follows: Stacks of sheets *B* are positioned adjacent feed end unit *C*. The operator runs hoist motor 100 to position pinch rolls 34, 35 so that their nips are in horizontal alignment with the tops of stacks of *B*. Upper roll 35 is swung away from roll 34 into dotted line position of Fig. 3. The op-

erator then pushes the top sheets from the stacks between the pinch rolls until the sheets engage stop 36. Rolls 35 are automatically moved down to engage the sheets and deposit them on moving belts 120 of the conveyor which carry them to pinch rolls 35′, 122, which in turn have been positioned by motor 100′ to deliver the sheets to the appropriate deck of the dryer.

In the embodiment of the machine shown in Fig. 9, conveyor table *D* and discharge end unit *E* have been eliminated and feed end unit *C* and stacks of sheets *B* have been mounted on a large, vertically movable elevator 350.[36] An operator stands on elevator 350 and pushes sheets into pinch rolls 34, 35, which in turn discharge the sheets directly onto decks 10, 11, 12, 13 of the dryer. Elevator 350 is automatically moved up and down via synchronizing unit 140 to align the pinch rolls with the correct dryer deck. The operator of the machine independently operates motor 100 periodically to maintain alignment between the top sheets of stacks *B* and the nips of roll 34, 35.

The Accused Machine

The accused machine [37] was designed by defendant Otto Jeddeloh in 1957 as a result of a request from an operator of a plywood mill to improve on what was commercially available in the way of feeders for veneer dryers. Otto Jeddeloh looked at a veneer dryer feeder built by plaintiff and then designed the accused

[36] Col. 9, ll. 20-25.
[37] DXs 133, 134, 138, II.598, 599, 603

machine on which he ultimately obtained his patent No. 2,876,009.[38] The machine is a unitary machine for feeding veneer comprising[39] a loading mechanism 38 having a subframe or tipple 37 which is pivotally supported at 36 within the frame. Cam 101 engages follower 102 and swings subframe 37 up and down about pivot 36. There are provided adjacent pivot 36 infeed rolls 72, the upper one of which may be swung away from the lower by means of ram mechanism 92. Outfeed pinch rolls 71 are mounted at the opposite side of subframe 37 from infeed pinch rolls 72. Through suitable connections 105 to the decks of veneer dryer 10 a variable speed control mechanism drives cam 101 so that outfeed rolls 71 will be in line with the correct veneer dryer deck.

Operation of the accused machine is as follows: Stacks of veneer may be placed on any conventional hoist or elevator in front and adjacent the infeed rolls of the machine. The operator adjusts the height of the elevator so that the top sheets of veneer in the stacks are in line with the nip of the infeed pinch rolls. The pinch rolls are automatically opened and the operator pushes the top sheets from each stack between the pinch rolls into engagement with fence 97. The infeed pinch rolls are automatically swung down into engagement with the veneer which is then propelled forwardly through subframe 37 into the nip of outfeed pinch rolls 71 which deliver the veneer to the correct deck of the dryer. The veneer sheets pass directly from infeed rolls 72 to outfeed rolls 71 and there is no conveyor mechanism for

[38] I.112, 113, 117; DX 123, II.587

[39] See drawings of the Jeddeloh patent reproduced at App. 20.

conveying or transporting the veneer from one set of rolls to the other. Plate 51 which extends between the two sets of rolls acts as a guide for any deformed pieces of veneer and also prevents debris from falling into the lower part of the machine.[40]

Questions Presented

1. Whether Parker patent Re. 24,638 is invalid where it is drawn to an aggregation of old elements which perform no new or unexpected result; where the subject matter disclosed in the patent would have been obvious at the time of the alleged invention to one having ordinary skill in the art; where the patent overclaims the alleged invention by reciting in the claims an old combination of elements along with the alleged improvement; and where the reissue did not comply with the provisions of the reissue statutes.

2. Whether there is file wrapper estoppel of claim 17 of patent Re. 24,638.

3. Whether claim 17 can be construed to cover defendants' machine which does not have a vertically movable infeed end.

4. Whether the individual defendants who are officers of the corporate defendant should be held personally liable for infringement damages where they have acted only in their capacities as officers of the corporation, and where the Trial Court has expressly found that infringement was neither wilfull nor wanton.

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[40] I.119

5. Whether the measure and computation of damages under all the circumstances of this case were correct.

SPECIFICATION OF ERRORS

1. The Trial Court erred in refusing to invalidate Parker patent Re. 24,638.

2. The Trial Court erred in finding that claims 3, 5 7 and 17 of the Parker reissue patent define a patentable invention.[41]

3. The Trial Court erred in failing to find that claims 3, 5, 7 and 17 of the Parker reissue patent are invalid because drawn to an unpatentable aggregation of elements.

4. The Trial Court erred in failing to find claims 3, 5, 7 and 17 of the Parker reissue patent invalid for overclaiming the alleged invention.

5. The Trial Court erred in refusing to apply the doctrine of file wrapper estoppel to prevent plaintiff from asserting claim 17 against the accused apparatus.

6. The Trial Court erred in finding that claim 17 of the Parker reissue patent is entitled to a range of equivalents such as to encompass the accused machine.[42]

7. The Trial Court erred in concluding that the accused machine infringes claim 17 of Parker Re. 24,638.[43]

8. The Trial Court erred in finding that the elevator

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[41] Findings of Fact XXX, XXXI, III.20
[42] Finding of Fact XLVIII, III.24
[43] Conclusion of Law VII, III.25

employed in the accused apparatus for storing sheets of veneer is an integral and essential part of the accused feeding apparatus and is covered by claim 17 of the Parker reissue patent.[44]

9. The Trial Court erred in rejecting defendants' exhibit 129 which shows that a separate elevator for storing veneer is not within claim 17 as contemplated by Parker.[45]

10. The Trial Court erred in determining the amount of damages to be $146,850.[46]

11. The Trial Court erred in finding that the individual defendants are personally liable for infringement damages. [47]

12. The Trial Court erred in awarding plaintiff an injunction against defendants, and each of them, for infringement of the Parker reissue patent.[48]

13. The Trial Court erred in awarding costs and disbursements to plaintiff, and in failing to dismiss the complaint and award costs and disbursements to defendants.[49]

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[44] Finding of Fact XLIV, III.23

[45] The Trial Judge did not specifically state the grounds for rejecting this exhibit. At IV.32 of the record, one of plaintiff's counsel indicated the ground for objection to be that the document was prepared by an engineer in plaintiff's employ who had written it in connection with the description of a machine and how it operated. The substance of the document appears at App. 3-4 herein where it is reproduced in full.

[46] Supplemental Conclusion of Law B, III.47

[47] Supplemental Conclusion of Law B, III.47

[48] Conclusion of Law VIII, III.25; Supplemental Conclusion of Law C, III.47

[49] Supplemental Conclusion of Law D, III.47

SUMMARY OF ARGUMENT

Parker patent Re. 24,638 is not drawn to a patentable invention. It relates merely to an unpatentable aggregation of elements which are fully disclosed in the prior art, and which do not cooperate to produce a new or unexpected result.

The Parker reissue patent does not meet the standards of patentable invention because what it discloses would have been obivous at the time of the alleged invention to a person having ordinary skill in the art. It does not disclose a new invention within the meaning of 35 U.S.C. § 101.

Even assuming that Parker had made an improvement in sheet-feeding apparatus, namely, pinch rolls, claims 3, 5, 7 and 17 are invalid because they reclaim an old combination of feeder elements along with the pinch rolls.

Claim 17 of Parker is not infringed because it calls for "vertically movable feed means having an entering end and a discharge end, said feed means including a pair of pinch rolls . . . [, and] . . . power-actuated means for vertically moving said entering end of said feed means . . . ." The accused machine has vertically *fixed* infeed pinch rolls.

Plaintiff is estopped to assert claim 17 of the Parker patent against the accused apparatus, because, in order to secure allowance of this claim during prosecution before the Patent Office, Parker distinguished his verti-

cally movable pinch rolls from a prior art patent which showed feed means having a vertically fixed infeed end. In view of such estoppel, plaintiff is not entitled to a range of equivalents which would bring the accused apparatus within the coverage of claim 17.

Defendant's exhibit 129, which is an engineering document prepared by an engineer-employee of plaintiff, contains an important admission against interest and was improperly excluded from evidence by the Trial Court.

The Parker reissue patent is invalid in toto because it includes new matter which was not present in the original patent and is thus for a different invention from that shown in the original patent, because it includes broadened claims which were presented in an application for reissue filed more than two years after the grant of the original patent, and because it was supported by an invalid oath, signed only by the assignee of the patent, and presented in an application seeking a reissue on broadened claims. This conduct is in direct contravention of 35 U.S.C. § 251.

The individual defendants acted only in their capacities as officers of the corporate defendant, and the Trial Court expressly concluded that infringement was neither wilfull nor wanton. They should not be held personally liable for infringement damages.

The measure and computation of damages is incorrect because, even if there was infringement, it was very limited. Only one claim was found to be infringed and even that was questionable in the mind of the Trial

Judge. The royalty rate should be lower than that charged to prior licensees for use of the whole invention. Moreover, where damages are computed on the basis of a royalty, plaintiff is not entitled to have the royalty applied to apparatus sold by defendants which apparatus does not include the combination of elements found to infringe. Further, plaintiff is not entitled to have the royalty applied to defendants' maximum selling price where defendants have sold apparatus at differing selling prices.

ARGUMENT

The Parker Patent is Not for a Patentable Invention

The crucial findings by the District Court on this aspect of the case are findings XXX and XXXI.[50] These findings are clearly erroneous and should be rejected by this Court.[51]

A good starting point in determining the gist of an invention is the inventor's own appraisal because it car-

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[50] III.20

"XXX. The patent claims here in issue cover new combinations of elements which cooperate to produce a new and beneficial result, and this invention was not obvious to one skilled in the art."

"XXXI. Although each element of the patent in suit is old in the art, in combination they achieved a new result which enabled only one operator to feed sheets of veneer from stacks to various decks of a dryer with greater ease and less breakage and with much less manpower and expense. It was something more than a mere advance in the efficiency or utility of a machine; it was a new method of feeding sheets of green and wet veneer into a dryer."

[51] "The Supreme Court has held that the determination by the trial court of the question of invention need not be accorded the respect given ordinary findings of fact." *Oriental Foods* v. *Chun King Sales,* 9 Cir., 1957, 244 F.2d 909, 913.

ries definite weight.[52] Mr. Parker was not alive at the time of trial but plaintiff's president, Mr. Milbourn was well acquainted with Mr. Parker's work at the time of the alleged invention and Mr. Milbourn's testimony reveals that what Mr. Parker considered his invention to be was the discovery that pinch rolls would feed veneer when only the entering edge of a sheet is inserted between the pinch rolls. Mr. Milbourn testified as follows:

> " 'Q. What was that idea succintly, as briefly as you can state it?
>
> 'A. That idea basically, the one thing that had to be proved to see if other aspects should be developed, was whether or not a pair of pinch rolls would take hold of this sheet and propel it in a forward direction or would take hold of a series of sheets and propel it when only the entering edge of the sheet was pushed into the roller.
>
> 'Q. As you recall it, Mr. Parker had this concept?
>
> 'A. I recall it vividly when he came into the office that morning and propounded the theory.
>
> 'Q. Sort of said, "Eureka! I have got it"?
>
> 'A. That's right, "I think I have got it."
>
> 'Q. "I think I have got it"?
>
> 'A. Yes.'
>
> "Q. Do you recall that testimony?
>
> "A. Yes, sir.
>
> "Q. Is that testmony correct?
>
> "A. Yes."[53]

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[52] *Timken Detroit Axle Co.* v. *Cleveland Steel Products Corp.,* 6 Cir., 1945, 148 F.2d 267, 270; *Jungersen* v. *Baden,* 2 Cir., 1948, 166 F.2d 807, 809.

[53] I.143, 144

Mr. Milbourn also said:

"In other words, the most unknown factor was whether the pinch rolls would successfully propel veneer. Granted that pinch rolls in themselves were not new, but, to the best of our knowledge, no one had used pinch rolls to propel veneer by sticking only the entering edge of the veneer into the pinch rolls . . . ."[54]

Plaintiff's expert Mr. Miles, on direct examination testified as follows:

"Q. In your opinion, does the combination evidence anything more than what would be expected of a reasonably competent person familiar with the art?

"A. Yes. Specifically, as we have discussed before, the elements individually have all been present in the prior art.

"The key to the invention, as I see it, was the—although it is not the invention but it is the key to the combination—was the addition of the pinch roll assembly in combination with the other elements to wield the result." [55]

In filing for and obtaining the reissue patent, plaintiff confirmed Mr. Parker's belief that pinch rolls were the essence of his invention. In the oath which accompanied the application for the reissue patent,[56] it was stated that the combination of elements called for in original claims 10, 11 and 14 were invalid in view of Streeter patent 1,809,456 because those claims did not

[54] I.145
[55] I.285
[56] PX 4, p. 57

call for pinch rolls. Plaintiff therefore conceded that everything called for in those claims was old and that the only way of distinguishing from Streeter was by the inclusion of the pinch roll mechanism in the claims. On behalf of plaintiff, Mr. Milbourn submitted an affidavit to the Patent Office in connection with the reissue application which contained the following:

> "That until recently Petitioner considered claims 10, 11 and 14 of said patent No. 2,649,182 as valid and of distinguishing scope over the prior art and especially over the references cited by the Patent Office during the prosecution of the application upon which said patent issued; that recently an infringement suit [the present suit] was brought on said patent No. 2,649,182 and in the answer filed by the defendants therein a number of prior art patents were referred to as invalidating said patent including patents not cited during the prosecution of the application upon which said patent issued; that the attorneys for Petitioner studied said prior art patents and have advised petitioner that claims 10, 11 and 14 of said patent No. 2,649,182, as presently worded, are so broad in scope that they are probably invalid over the disclosure of United States Patent No. 1,809,456, one of said prior art patents, which was not cited by the Patent Office during the prosecution of the application upon which said patent issued; that said attorneys pointed out that said claims 10, 11 and 14 of said patent No. 2,649,182 were *probably invalid because they did not specify that the sheet feeding mechanism claimed includes pinch roll means* for advancing a veneer sheet and were therefore possibly subject to

a broader interpretation although pinch rolls are the means shown in the patent . . . ."[57]

Claim 10 in the original Parker patent read as follows:

"In equipment for loading sheet material into a multiple power driven conveyor deck type machine, a sheet feeding mechanism including power driven elevating means shiftable vertically to direct sheet material into different ones of the multiple conveyor decks of the machine, and control means to intermittently initiate operation of said elevating means at intervals which are a function of the speed of the conveyor decks, which control means includes a control device operated in synchronism with the power driven conveyor decks."

Original claims 11 and 14 were very similar to claim 10. New claims 10, 11 and 14 all had the phrase "pinch roll means" added to them. It is also noteworthy that each of these new claims had the word "veneer" inserted between "sheet" and "material" in the introductory phrase, as well as the addition of the phrase "a stack of veneer sheets." No such limitations were made to claims 3, 5, 7 and 17, which simply call for "feeding (loading) material in sheet form into a multiple deck conveyor type machine."

The District Judge, in interpreting these claims, read them as being limited to a machine for feeding sheets of veneer into a veneer dryer and on that basis distinguished from the prior art references. He said:

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[57] PX 4, p. 57

"At the hearing after remand, defendants stressed three prior patents: Streeter, 1,809,456, Cross 640,-368, and Campebll 1,216,773.

"Streeter was one of the patents considered by the patent examiner in the Parker application for a reissue patent. Although both the others are patents on feeders, Cross related to paper and Campbell to tin plate. In fact none of the patents cited by defendants throughout these proceedings, with the exception of plaintiff's own Moore patent, relates to a veneer feeder, and an apparatus constructed substantially in accordance with the teachings of Moore was unworkable."[58]

The grant to a patentee is measured by the claims[59] and it was error to construe claims to include the "veneer" limitation which had been expressly omitted from the claims in issue.

However, even the "pinch roll" limitation can not save the claims of the Parker patent because pinch rolls for feeding all sorts of materials, including veneer, were very old. Mr. Miles, plaintiff's expert, testified that the use of pinch rolls was usual in veneer dryers.[60] As shown at the right-hand side of Fig. 1 of the Parker patent, rollers 20-23 are pinch rolls.

Cross patent 640,368[61] is for a sheet-feeding mechanism described with reference to sheets of paper but the claims are not limited to paper and refer simply to

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[58] III.7

[59] *Stallman* v. *Casey Bearing Co.*, 9 Cir., 1957, 244 F.2d 905, 908.

[60] I.102, 103

[61] DX 101, II.354

"a pile of sheets." The pile of sheets is supported on an elevator *B* which is vertically adjusted to align the topmost sheet on the pile with a pair of pinch rolls *E, E′*. Upper rolls *E′* are mounted on rocker arms *e′* so that they may be intermittently swung away from the lower rolls to permit insertion of a sheet and when rolls *E′* are swung down to engage the sheet placed in the nip of rolls *E, E′*, the sheet is pulled from the pile and delivered to feed table *C*.[62] Elevator *B* is periodically vertically moved by the operator to maintain alignment between the top of the stack of sheets and pinch rolls *E, E′*.[63]

Campbell patent 1,216,773[64] is a sheet-feeding device in which a stack of sheets (the invention is described in terms of sheets of tin plate but the claims are not so limited) is supported on a vertically movable table 26 which is automatically adjusted to maintain alignment between the top of the stack and a pair of pinch rolls 21, 22. Suction head 30 picks up and places the leading edge of the top sheet between the pinch rolls, the upper roll of which has been automatically moved away to permit insertion of a sheet. After a sheet has been placed between rolls 21, 22, upper roll 22 is swung down to engage the sheet and it is fed from the machine.[65]

The District Court held that "The essential feature of both the Parker apparatus and the accused apparat-

[62] DX 101, p. 1, col. 2, ll. 80-87; p. 4, col. 2, ll. 111-134
[63] DX 101, p. 1, col. 2, ll. 53-59
[64] DX 105, II.396
[65] DX 105, p. 1, col. 1, ll. 45-50; p. 2, cols. 1 & 2, ll. 60-74, ll. 89-94; p. 3, col. 2, ll. 70-78, ll. 104-109

us is the maintenance of a roll stack alignment at the infeed end."[66]

That feature was clearly disclosed by Cross and Campbell, neither of which was before the Patent Office Examiner during prosecution of the Parker applications.[67]

Streeter patent 1,809,456[68] discloses sheet-feeding mechanism for a multiple-deck dryer which has everything called for in the asserted Parker claims except pinch roll mechanism. Streeter was principally concerned with feeding partially manufactured material, such as wallboard, which could not be stacked and was therefore moved in a more or less continuous flow from a pressing device to the multiple-deck dryer. Referring to the Streeter patent, and particularly Fig. 1 and the simplified drawing of the Streeter patent,[69] the unit marked *A* at the right-hand side of the drawing is the transfer mechanism which intermittently feeds sheet material to the conveyor mechanism *B* which is moved up and down to deliver sheets to the correct dryer deck under control from appropriate control mechanism connected to the drive for the dryer decks. Unit *A* has a plurality of driven rolls 4 supported on a frame 5 that is moved up and down by toggle links 6. Rolls 4 are operated as jump rolls to remove sheets of material from

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[66] III.10

[67] Failure of the Patent Office to consider the most pertinent prior art dissipates any presumption of validity of a patent. *Pressteel Company* v. *Halo Lighting Products Inc.*, 9 Cir., 1963, 314 F.2d 695, 697.

[68] DX 110, II.446

[69] DX 140, II.605

belts 1 and transfer the sheets onto conveyor *B*.

There is complete functional equivalence between the operation of Streeter and Parker. They both disclose machines for loading material in sheet form into a multiple-deck, power-driven conveyor comprising a feed end unit, a vertically movable conveyor-type table, and a discharge end unit which operates in timed relationship to the decks of the conveyor-type machine to deliver material thereto. The only structural element lacking in Streeter is pinch roll mechanism. As previously mentioned, Streeter has jump rolls 4 for feeding sheets. All that Parker did was to add a set of upper rolls such as shown by Cross or Campbell, at the infeed end.

The basic elements called for in claims 3, 5, 7 and 17 of Parker are a sheet-feeding mechanism comprising:

A. feed means having entering and discharge ends.

B. pinch rolls.

C. means for driving the pinch rolls.

D. means for vertically moving the entering end.

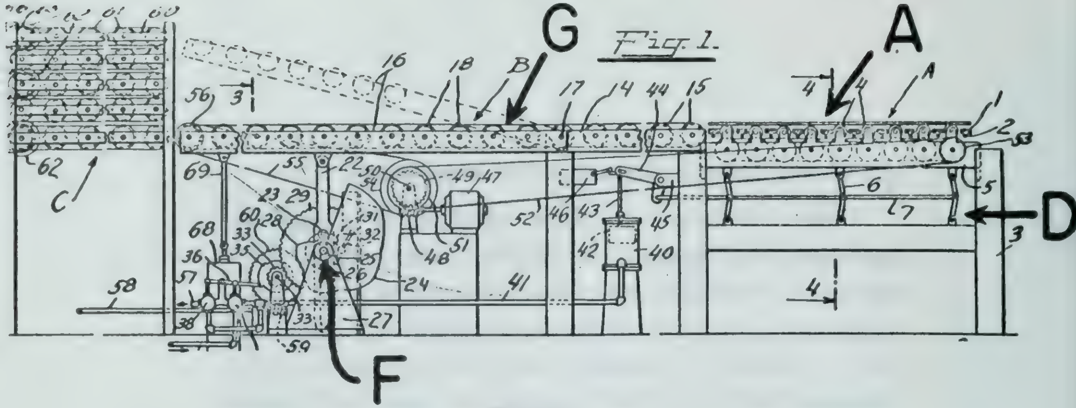
E. means for opening and closing the pinch rolls.

F. control means for moving the discharge end in timed relation to the opening and closing of the pinch rolls.

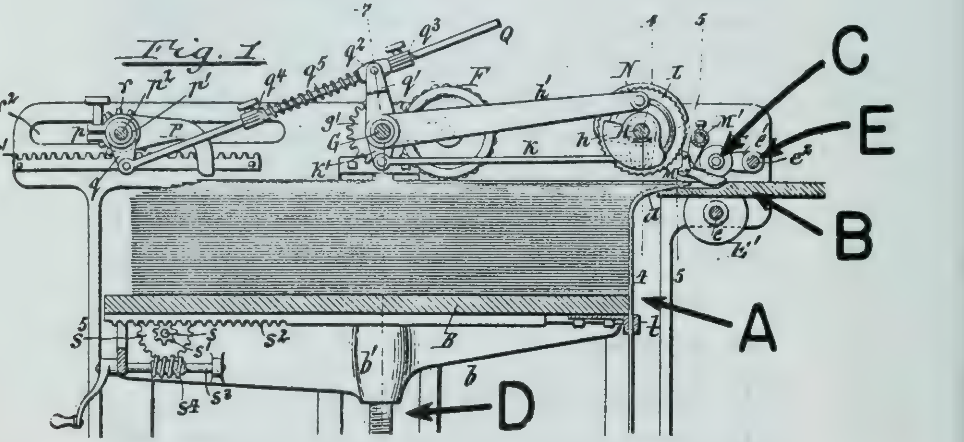
G. conveyor-type table.

The manner in which these elements are found in Cross, Campbell and Streeter is shown on the following pages on which figures from those patents are reproduced along with claim 17 and the additional element of claims 3, 5 and 7.

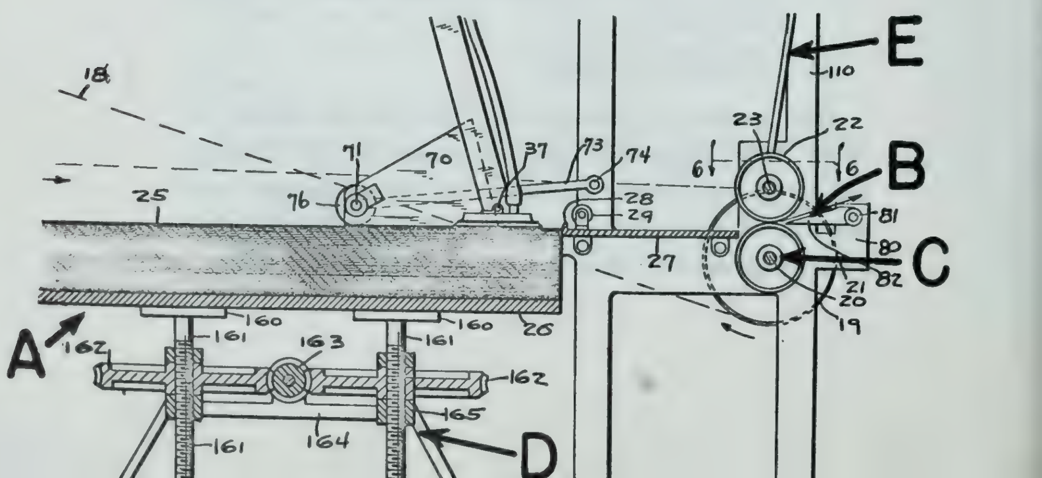
STREETER



CROSS



CAMPBELL (FIG. 3)



PARKER CLAIM 17

In equipment for loading material in sheet form into a multiple deck power driven conveyor type machine, the combination of

A vertically movable feed means having an entering end and a discharge end, said feed means including

B a pair of pinch rolls,

C means for driving said pinch rolls,

D power actuated means for vertically moving said entering end of said feed means,

E power actuated means for producing relative movement of said pinch rolls toward and from each other, and

F automatically controlled power actuated means for moving said discharge end of said feed means vertically in timed relation to the relative movement of said pinch rolls relative to each other.

ADDITIONAL BASIC ELEMENT IN PARKER CLAIMS 3, 5, 7

G a conveyor type table.

Cross and Campbell patents. The District Court's manner of distinguishing from these patents on the basis that Parker's invention had to do with feeding veneer which had special problems and the prior art with feeding of other materials is, as previously discussed, immaterial if correct because the asserted claims are not limited to any particular type of sheet material. Furthermore, even if Parker's claims were limited, and he had been the first mechanically to feed veneer by pinch rolls, that would not amount to patentable invention. At best, all he taught was the use of a different material (veneer) with an old instrumentality (pinch rolls) which is not patentable.[74]

Even if the Parker patented machine could be considered to be "new," the differences between it and the prior art are such that they would have been obvious to a person having ordinary skill in the art. Ever since the decision in 1850 of *Hotchkiss* v. *Greenwood,* 11 How. 248, the Supreme Court has held that an invention must not only be new and useful but it must also be the product of a greater degree of ingenuity or skill than that possessed by "an ordinary mechanic acquainted with the business."[75] That language of the *Hotchkiss* case was paraphrased and codified in 1952.[76] In *A. & P. Tea Co.* v. *Supermarket,* supra, the doctrine of the *Hotchkiss* case was given renewed vitality and applied most forcefully to mechanical patents claiming combinations of old elements.

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[74] *Griffith Rubber Mills* v. *Hoffar,* supra.
[75] Id. at 266
[76] 35 U.S.C. § 103

As the Court said (pp. 152-153):

> "A patent for a combination which only unites old elements with no change in their respective functions, such as is presented here, obviously withdraws what already is known into the field of its monopoly and diminishes the resources available to skillful men. This patentee has added nothing to the total stock of knowledge . . . ."

In a long line of cases, commencing with *Photochart* v. *Photo Patrol,* 9 Cir., 1951, 189 F.2d 625; *Himes* v. *Chadwick,* 9 Cir., 1952, 199 F.2d 100, and *Berkeley Pump* v. *Jacuzzi Bros.,* 9 Cir., 1954, 214 F.2d 785, this Court has expressly followed the holding of the *A. & P.* case that claims for combinations of old mechanical elements must be carefully scrutinized, and there is no patentable invention unless it can be shown that the elements operate in a different manner to accomplish a different and unexpected result in the patented combination from what they previously did.

In *William T. Alvarado Sales Co.* v. *Rubaloff,* 9 Cir., 1959, 263 F.2d 926, 930, 931, this Court, in invalidating a patent claiming a combination of old mechanical elements, said:

> "Its components do not perform any additional or different function in the combination than they perform out of it. To be sure, they perform this same function differently, and perhaps better. This difference, and betterment, evidences the practical application of a good idea. It is not, however, an idea which in practice has produced such unusual or surprising consequences or has so added

> to the total stock of knowledge that it represents invention in the constitutional sense."

Welsh Co. of California v. *Strolee of California, Inc.*, 9 Cir., 1963, 313 F.2d 922, 928, is a patent case which had been remanded to the district court because certain "findings are too broad and conclusory."[77] In finally holding that it did not amount to invention to use a particular inverted V-toggle bar in the combination of old elements, the Court quoted with approval from *Packwood* v. *Briggs & Stratton Corp.*, 3 Cir., 1952, 195 F.2d 971, 973:

> " 'This conception has been particularly helpful in the evaluation of those discoveries in the field of mechanics which have involved only combinations of old and familiar elements and ideas. When, if ever, can such combination be said to add to scientific knowledge? The reasonable and accepted answer is if, but only if, the particular combination yields some surprising or extraordinary result . . . .' "

Even if the machine claimed by Parker as an invention was the first machine that fed sheets of *veneer* into a dryer, that was not an unusual, surprising or different result from that expected.[78]

In *Talon, Inc.* v. *Union Slide Fastener, Inc.*, 9 Cir., 1959, 266 F.2d 731, 735, the Court said that even though there was "a new cooperative relationship" between the old elements the result was only an improvement in

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[77] 290 F.2d 509, 510.
[78] See also *Griffith Rubber Mills* v. *Hoffar*, supra, at 3.

control or efficiency and that where elements performed the same mechanical function as they had previously been known to perform, this did not amount to patentable invention but was something that any mechanic skilled in the art would expect the combination of elements to produce. To the same effect is this Court's recent opinion in *Continental Connector Corp.* v. *Houston Fearless Corp.,* 9 Cir., 1965, 350 F.2d 183, 190, 191.

Another case which has much in common with the present one is *Canadian Ingersoll-Rand Co.* v. *Peterson Products of San Mateo,* D.C. N.D. Cal., 1963, 223 F. Supp. 803. Judge Sweigert's scholarly opinion, particularly on the questions of invalidity because of aggregation of old elements and obviousness to one having ordinary skill, were expressly approved by this Court on appeal, 1965, 350 F.2d 18. Judge Sweigert said (pp. 821, 822):

> "When nothing tangible is new and invention, if it exists at all, is only in bringing old elements together, the conjunction or concert of known elements must contribute something. Only when the whole in some way exceeds the sum of its parts and is not the usual result of uniting elements old in mechanics is the accumulation of old devices patentable. The parts must perform some different or additional function or their combination must produce unusual or surprising consequences for one schooled in that particular art."

(p. 823):

> "If Anderson had devised something new in the cutter or in the spray gun or had accomplished

something surprising or unusual in the combination of the two—beyond the normal functioning of the parts in a mechanical combination—the situation would, of course, be different.

"Where, however, the claim of invention rests, not upon a new ingenious arrangement of old elements, but, as in the pending case, upon taking a prior art cutter, admittedly known and used in the art and complete in itself, to mechanically combine it with a dual spray gun also admittedly known and used in the art and complete in itself, to operate them conjointly, such accomplishment, of itself, should not in the opinion of this Court be held patentable invention . . .

* * * * *

"In the absence of some claim of singular novelty in the cutter, or in the spray gun, or in both, this result is attributable only to the mechanical mounting together or conjoint use of the two known elements."

An examination of the Parker patent shows that all that he did was to combine a vertically movable conveyor for delivering sheet material to the decks of a dryer (Streeter) with pinch feed rolls in which roll stack alignment was maintained (Cross, Campbell). It is clear that Parker's assembly of these old elements was aggregation rather than true combination because they operate together just the way they operated separately and produce the expected result. Even Mr. Miles, plaintiff's expert, had to admit that that was so. Mr. Miles said:

"THE COURT: Does the conveyor belt in the

Parker Patent act the way any belt would act, or did it produce some new and surprising result?

"THE WITNESS: It only maintained—it did not necessarily produce any new and surprising result.

"THE COURT: You expected the conveyor belt to do exactly what this conveyor belt did?

"THE WITNESS: Yes, maintain the situation that has been established."[79]

* * * * *

"Q. Do these pinch rolls operate any differently from any way pinch rolls had ever operated before?

"A. No.

* * * * *

"Q. Do the pinch rolls in the exit end, the outfeed pinch rolls in the unit E, operate any differently from any pinch rolls that existed before?

"A. As a separate unit, no.

"Q. They all operate the same?

"A. As individual units, yes."[80]

With respect to the combined operation of the infeed pinch rolls, conveyor belts and outfeed pinch rolls, Mr. Miles finally agreed that all these elements combined to produce the expected result.

"Q. I am asking do they operate and perform a function and produce a result that would be expected if you took those three elements and combined them together?

"A. Yes."[81]

That it could not amount to patentable invention for Parker to use pinch rolls in an automatic sheet feeder

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[79] I.274
[80] I.290
[81] I.292

for a multideck dryer is strongly indicated from *Altoona Publix Theatres* v. *American Tri-Ergon Corp.,* 1935, 294 U.S. 477. In *Tri-Ergon* the Supreme Court held invalid a patent based on the addition of a flywheel to mechanism for producing sound for talking motion pictures because (p. 486):

> "The inclusion of a flywheel in any form of mechanism to secure uniformity of its motion has so long been standard procedure in the field of mechanics and machine design that the use of it in the manner claimed by the present patent involved no more than the skill of the calling."

The Court went on to say (p. 486):

> "Patents for devices for use both in the motion picture art and in the art of sound reproduction, notably the Holst, the Bell & Tainter, the Dragoumis patents, and the Edison application, already noted, plainly foreshadowed the use made of the flywheel in the present patent, if they did not anticipate it. The patentees brought together old elements, in a mechanism involving no new principle, to produce an old result, greater uniformity of motion. However skilfully this was done, and even though there was produced a machine of greater precision and a higher degree of motion-constancy, and hence one more useful in the art, it was still the product of skill, not of invention."

The Parker Patent is Invalid for Overclaiming

Claims 3, 5, 7 and 17 of the Parker patent are also invalid for overclaiming. Ever since *Bassick Mfg. Co.* v. *Hollingshead,* 1936, 298 U.S. 415, and *Lincoln Engineering Co.* v. *Stewart-Warner,* 1938, 303 U.S. 545, it

has been the law that even if one improves an element of an old combination, he may not repatent the old combination by reclaiming it with the improved element but must patent only that portion which he improved.

It was previously shown that Streeter had everything claimed by Parker except pinch rolls and that if Parker made any improvement at all, it must have been the substitution or addition of pinch rolls in place of Streeter's single jump rolls at the infeed end of the machine. Parker's claims, however, are not limited to the pinch roll mechanism, but seek to repatent the old feeder and control mechanism along with the pinch rolls.

In a case involving a device somewhat similar to that of the Parker patent, *Heyl & Patterson, Inc.* v. *McDowell Co.,* 4 Cir., 1963, 317 F.2d 719, the court said, p. 723:

> "The mere improvement of one portion of an apparatus does not permit a patenting of the whole (Citing cases). Plaintiff, having at the very most hit upon a mechanical change to facilitate the use of the upper end of the chute leading to the ship's hold in place of a stationary pan, patented the entire apparatus from the hopper to the gate. This is much more than any possible invention to be found in plaintiff's apparatus.
>
> "We therefore, hold that the plaintiff's patent is invalid in that it is lacking in invention and because it claims too much."

In *Pierce* v. *Ben-Ko-Matic, Inc.,* 9 Cir., 1962, 310 F.2d

475, 477 the Court quoted with approval the following from *Perfect Circle Corp.* v. *Hastings Manufacturing Co.,* D.C. W.D. Mich., 1958, 162 F. Supp. 777, 784:

> " 'The improvement of one element or part in a combination of old elements or parts does not entitle a patentee to a monopoly on the entire combination.' "

Claim 17 is Not Infringed

The District Court found that there was no infringement of claims 3, 5 and 7 because the accused machine does not have a conveyor-type table or its equivalent.[82] In this finding, the Court was clearly correct. Claim 17, however, was held infringed under the doctrine of equivalents.[83]

Claims must be construed in the light of the specifications, drawings and file history of the patent[84] and an "inventor is entitled to a range of equivalents commensurate with the scope of his invention.[85] Even if Parker made a patentable invention, it must be narrowly construed in the light of the prior art. The District Court correctly held in its first opinion and findings that Parker was entitled only to a narrow range of equivalents.[86] That holding was never expressly contradicted in the District Court's second opinion or findings.

Claim 17 is not infringed because it calls for "ver-

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[82] Findings XXXIX, XL, III.22-23

[83] Findings XLVII, XLVIII, III.24.

[84] *Whiteman* v. *Mathews,* 9 Cir., 1954, 216 F.2d 712, 715.

[85] *Nelson* v. *Batson,* 9 Cir., 1963, 322 F.2d 132.

[86] I.39, 43.

tically movable feed means having an entering end and a discharge end, said feed means including a pair of pinch rolls . . . [and] . . . power-actuated means for vertically moving said entering end of said feed means . . . ." In the accused machine the feed means are vertically fixed infeed pinch rolls. Plaintiff does not deny that defendants' infeed pinch rolls are fixed, but interprets "vertically movable feed means" to include a separate hoist or elevator vertically movable relative to the infeed pinch rolls which may be positioned in front of the accused feeder for storage of stacks of veneer prior to loading sheets into the pinch rolls. The elevator is a standard piece of unpatented equipment which is commonly used in plywood manufacturing plants and is available from various sources. Defendants sell the elevator separate from the feeder and sell one without the other, although the elevator is presently the most efficient mechanism for maintaining roll stack alignment.[87] Finding XLIV that these elevators "are integral and essential parts of the accused feeding apparatus" is clearly erroneous.

Plaintiff is not entitled to interpret claim 17 to include a separate elevator mechanism which may be used in conjunction with the veneer feeder because that is not the teaching of the Parker patent. There is nothing in the drawings or the specification to suggest that Parker intended to include within the scope of either embodiment of his alleged invention, a veneer storage hoist or elevator that is vertically movable relative the infeed

[87] I.118, 127, 128

pinch rolls. That concept was an afterthought of plaintiff's patent solicitors after they saw the accused machine. This is clear from new claims 18-24 of the reissue patent which broadly cover any "means producing relative movement between" the stack of veneer sheets and the feed end (pinch rolls).

In the embodiment of his invention shown in Figs. 1-8 Parker shows a stack of veneer *B* resting on blocks in front of "feed end unit C." In describing the invention, Parker states (Col. 2, beginning line 19) the following:

> "The present invention does not contemplate any change in the conventional manner of bringing the veneer to the dryer and, as shown, the veneer B is brought to the infeed end of the dryer A, or, more specifically, to the infeed end of the feeding mechanism stacked upon a truck 32 of conventional construction. The operator either standing upon the floor or upon a raised platform 33 pushes the top piece of veneer on the stack between the rubber covered pinch rolls 34, 35 of the feed end unit C of the feeding mechanism until it strikes a stop 36. The pinch rolls 34, 35 are movable vertically, as will be hereinafter described, so that the pinch rolls can be maintained in substantial alignment with the top of the stack of veneer upon the truck, thereby facilitating the feeding of the top piece of veneer between the pinch rolls. . . .
>
> "The feeding mechanism comprises the feed end unit C, a floating conveyor *or guide* table D, and a discharge end unit E. The feed end unit C comprise a frame and a vertically movable assembly." (Italics in original)

It is clear from the foregoing that mechanism for supporting a stack of veneer *B* forms no part of Parker's invention. The feeding mechanism is limited to unit *C* and the entering end of the feed means is the vertically movable pinch rolls 34, 35.

Let us now look at the alternative construction shown in Fig. 9. In that construction a large vertically movable elevator 350 supports both stack of veneer *B,* and infeed pinch rolls 34, 35. Movement of elevator 350 produces no change in the position of the stack relative to the infeed pinch rolls. Like the other embodiment of the patent, the pinch rolls are moved vertically with respect to the support for the veneer (the top of elevator 350) through a separate elevator 100. Elevator 350 moves up and down to align pinch rolls 34, 35 with the correct dryer deck and elevator 100 moves the pinch rolls up and down to maintain alignment between the pinch rolls and the stack of veneer *B* just the same as is done in the embodiment shown in Figs. 1-8. Parker explains this (Col. 9, beginning line 20) as follows:

> "In the alternative construction shown in Fig. 9, the floating table D and the discharge end unit E are omitted and the feed end unit C and the portion of track which supports the truck or trucks 32 in position for feeding the veneer to the feed end unit C are both mounted on a vertically movable platform or elevator 350. The elevator shown is of the hydraulic type operated by an electric motor driven pump and is moved vertically to align the pinch rolls 34, 35 of the feed end unit C with the particular deck 10, 11, 12, or 13 which it is desired to feed either manually or automatically in

> a manner similar to that in which the vertically movable assembly of the discharge end unit is aligned with the various decks previously described."

Actually we do not believe that claim 17 can properly be read on the embodiment shown in Fig. 9 of the Parker patent because the claim calls for a "vertically movable feed means having an entering end and a discharge end . . . ." In the embodiment shown in Fig. 9 there is no discharge end in the sense meant by Parker because "the discharge end unit E" has been omitted.[88] In defendants' machine the infeed pinch rolls feed the sheets directly to the outfeed pinch rolls, whereupon the outfeed pinch rolls continue the feeding operation and feed the veneer into the dryer. The elevatable platform which may be positioned in front of the accused machine provides a support for veneer sheets, but in no sense *feeds* them into a dryer or other conveyor-type machine. It is necessary for an operator manually to pick up and remove sheets from the stack and insert their forward ends between the infeed pinch rolls before commencement of feeding of such sheets by the machine into the dryer.

Claim 17 calls for a feed means for a conveyor-type machine (dryer) and specifies "means for vertically moving said entering end of said feed means . . . ." This can not fairly be said to read upon apparatus such as defendants' wherein the machine does not actually commence feeding to the dryer until the veneer sheets are

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[88] Col. 9, l. 21.

placed in the nip of the vertically stationary infeed pinch rolls.

Plaintiff is Estopped to Assert Claim 17

Reference may be had to the file wrapper history of the Parker patent as an aid in determining the true meaning of claim 17.[89] During the prosecution of the original Parker patent, original claims 19 and 20 (present claims 15 and 16) were rejected as unpatentable over Smith patent 1,141,277.[90] The Examiner, recognizing that the feed end of Smith's apparatus was stationary, said:

> "Claims 19 and 20 are rejected as unpatentable over Smith. Smith discloses a vertically adjustable sheet discharging mechanism connected to a telescopic conveyor. While the feed end of Smith's conveyor is fixed adjacent the rolls 1 and 2 it would be obvious to the skilled mechanic to mount the feed end on a vertically adjustable head similar to the discharge end to receive sheets from a plurality of elevations."[91]

In response to the foregoing, Parker amended claims 19 and 20, and for the first time introduced present claim 17 (claim 21 in the file history), and in arguing patentability, made the following representation to the Patent Office:

> "Claims 19 and 20 have been amended to more clearly distinguish over Smith upon which they were rejected and favorable reconsideration of the

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89 *Whiteman* v. *Mathews,* supra.
90 DX 103, II.375.
91 PX 3, pp. 66, 67

rejection of these claims is requested. As now presented, *the claims specifically call for power actuated means for moving the sheet feeding unit vertically, in combination with automatically controlled power actuated means to raise and lower the sheet discharge unit.* The patent to Smith clearly does not show any such mechanism. *In Smith the entrance end of the conveyor table is stationary.*

"Favorable consideration of new claim 21 [now claim 17] presented herewith is requested. *This claim is drawn along the lines of claims already in the application* and is generic to both of the preferred embodiments shown. None of the references of record shows a sheet feeding mechanism for a multiple deck, power driven, conveyor-type machine comprising power driven pinch rolls, means for producing relative movement between the pinch rolls toward and from each other, *power actuated means for vertically moving the entering end of the feed means,* and automatically controlled, power actuated means for moving the discharge end of the feed means vertically in timed relation to the relative movement of the pinch rolls. Referring to the references relied upon in the last Office Action, attention is called to the fact that neither Jones, Smith nor Brunner shows any feeding means employing pinch rolls, much less automatically controlled vertical movement of the discharge end of a feeding means operated in timed relation to the relative movement of pinch rolls toward and from each other."[92]

Thus it is clear that Parker considered vertically movable infeed pinch rolls, rather than fixed ones, to be

[92] PX 3, p. 70

essential to his invention and the District Court erred in holding that defendants "employed an arrangement which was merely a reversal of parts. The essential feature of both the Parker apparatus and the accused apparatus is the maintenance of a roll stack alignment at the infeed end."[93] Plaintiff can not disavow its representation to the Patent Office, particularly since the manner in which the accused apparatus maintains roll stack alignment is precisely the same way as shown in the prior art Cross and Campbell patents. Furthermore, maintenance of roll stack alignment is obviously not essential to operation of either machine but simply makes feeding the machines easier for an operator because he doesn't have to bend over or reach up as far to insert veneer into the machines.

The District Court rejected the defense of file wrapper estoppel of claim 17 on the ground that the claim "was allowed in the form in which it was presented without rejection or amendment. . . ."[94] That was error because a claim does not have to have been rejected or amended in order to be subject to file wrapper estoppel.

When, during prosecution of an application, the applicant distinguishes a claim from prior art in order to avoid rejection, and the Patent Office allows the claim on the basis of the distinction made, whether the applicant changes the language of his claim or not, he is estopped from later asserting that his claim is broad enough to cover matter from which it was earlier distin-

[93] III.10
[94] III.10

guished.[95]

And where the applicant, in the proceedings before the Patent Office, asserts that a particular claim is based on the subject matter of certain other claims, or contains the limitations of such other claims, he is estopped from later taking the position that the particular claim is broader than those other claims.[96]

It was error for the District Court to reject the file wrapper estoppel defense because Parker clearly in his argument to support claim 17 disclaimed a machine which had fixed infeed rolls and he may not now disregard that limitation.

Plaintiff seeks to justify its reading of claim 17 to cover apparatus in which the infeed pinch rolls are vertically stationary by resorting to the following language in the specification:

> "It is also to be understood that the vertically movable assembly of the feed end unit C may be

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[95] *Ski-Mate Corp.* v. *Western Auto Supply Co.,* D. C. Texas, 1965, — F.2d —, 146 U.S.P.Q. 163; *Great Lakes Carbon Corp.* v. *Continental Oil Co.,* D.C. La., 1963, 219 F. Supp. 468, aff'd. 5 Cir., 1965, 345 F.2d 175; *Kinnear-Weed Corp.* v. *Humble Oil & Refining Co.,* D.C. Texas, 1956, 150 F. Supp. 143, aff'd. 5 Cir., 1958, 259 F.2d 398, cert. den., 1959, 4 L. Ed. 158.

[96] *Kinnear-Weed Corp.* v. *Humble Oil & Refining Co.,* supra; *Bacon American Corp.* v. *Super Mold Corp. of Cal.,* D.C., N.D., Cal., 1964, 229 F. Supp. 998 at 1007:

"Having represented to the examiner that in spite of the fact that the two new claims carried the reference to 'means' and made no reference to a swingable lower platen, these new claims, nevertheless, carried the same limitations as the old claims that taught only the swingable lower platen, plaintiff can not now, after issuance of the patent, withdraw Barefoot's self imposed limitation. In effect, Barefoot made an agreement with the Patent Office, and his assignee may not now destroy the effect of that agreement. *Thomas, et al* v. *Simmons Co.,* 126 F.2d 743 (CA 7, 1942); *Dempster Bros., Inc.* v. *Borg-Warner Corp.,* 170 F. Supp. 488 (D.C.)."

> positioned at some convenient height above the floor and the veneer fed thereto in any suitable manner, either manually or automatically. Regardless of how the sheets of veneer are brought to and inserted between the pinch rolls 34, 35 of the feed end unit, the feed mechanism of the present invention will automatically feed veneer to a multiple deck dryer in predetermined sequence and in properly spaced relation with respect to the other veneer on the various decks."[97]

Plaintiff asks too much of its claim. It seeks to twist the language of the claim first in one direction, to secure allowance by the Patent Office, and then in another direction to assert infringement. In *White* v. *Dunbar,* 1886, 119 U.S. 47, 51, the Supreme Court said:

> "Some persons seem to suppose that a claim in a patent is like a nose of wax which may be turned and twisted in any direction, by merely referring to the specification, so as to make it include something more than, or different from, what its words express. The context may undoubtedly be resorted to, and often is resorted to, for the purpose of better understanding the meaning of the claim; but not for the purpose of changing it and making it different from what it is. The claim is a statutory requirement, prescribed for the very purpose of making the patentee define precisely what his invention is; and it is unjust to the public, as well as an evasion of the law, to construe it in a manner different from the plain import of its terms."

In order to secure allowance of claim 17, Parker fo-

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[97] Col. 9, l. 9

cused on and stressed vertically movable infeed pinch rolls. Plaintiff should not now, for the purpose of asserting infringement, be permitted to distort the claim language to cover vertically fixed infeed rolls which were previously expressly disavowed by plaintiff.

Thus, the above quoted portion of the Parker specification does not provide a basis for reading claim 17 to cover stationary infeed pinch rolls. However, the foregoing statement does provide a basis for excluding from the coverage of claim 17 any separate elevator mechanism. The language indicates, significantly, that the feeder proper as contemplated by the invention starts with the infeed pinch rolls and that the Parker invention has nothing to do with how the veneer gets to the pinch rolls, because "Regardless of how the sheets of veneer are brought to and inserted between pinch rolls 34, 35 of the feed end unit, the feed mechanism of the present invention will automatically feed veneer . . . ." In any event, to the extent, if any, that the statement is construed to cover as part of the invention a separate elevator for the stack of veneer in front of vertically fixed infeed rolls, it is contradicted by the file history.

There were substantial changes made in the way the Parker invention was claimed during the pendency of the Parker patent applications, indicating quite a different view of what the invention was between the time when the first application was filed and when the plaintiff obtained the reissue patent. Furthermore, plaintiff is met with the proposition that specifications

of a patent may be used to limit the claims but not to expand them.[98]

The Parker patent does not disclose any mechanism for maintaining alignment between the infeed pinch rolls and the stack of veneer other than mounting the pinch rolls in a vertically movable supporting mechanism.

The use of an elevator mechanism or scissor lift in connection with stacks of veneer to maintain working height between the top of the stack of veneer and whatever machine is being fed is, of course, very old. In fact, plaintiff admitted that the use of an elevator like elevator 350 shown in Fig. 9 of Parker on which stacks of veneer were supported in front of veneer dryer decks was old.[99] The only difference between what existed and Parker Fig. 9 was the interposition of feed end unit C with its vertically movable pinch rolls between a stack of veneer and the dryer decks.

Even if claim 17 could as a matter of language be read on the accused machine, there is no infringement because, as previously discussed, the principle of operation and means employed in the accused machine are different from the patent. The District Court, erroneously concluded that claim 17 was infringed because both machines perform the same function to achieve the same result. The District Judge said in his opinion

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[98] *Oregon Saw Chain Corp.* v. *McCulloch Motors Corp.,* 9 Cir., 1963, 323 F.2d 758. See also *Hutchinson* v. *Pacific Car & Foundry Company,* supra, at 759; *Del Francia* v. *Stanthony Corp.,* 9 Cir., 1960, 278 F.2d 745, 747.

[99] I.257-259

that roll stack alignment was the "essential feature of both the Parker and the accused apparatus" and since both machines attained that result there was infringement. The District Court not only disregarded the difference in the means employed by defendants for achieving roll stack alignment but failed to appreciate the difference in operation of the accused machine in which infeed and outfeed rolls are mounted relatively close to each other on a unitary frame that is pivoted. The nips of the infeed and outfeed rolls are always in alignment and sheets are passed directly from infeed to outfeed rolls.[100]

The controlling law in this circuit was recently set forth in *Lockwood* v. *Langendorf United Bakeries, Inc.*, 9 Cir., 1963, 324 F.2d 82, 88 where the Court quoted with approval from Judge Sweigert's careful opinion:

> " 'Even if a claim can be read in terms upon an accused article, infringement does not necessarily follow unless it can be found as an ultimate fact that the article uses the inventor's idea as embodied in the inventor's design and drawings and that there is sameness or equivalence of function and means. See: Trenton Industries v. (A. E.) Peterson Mfg. Co., 165 F. Supp. 523, 529 (S.D. Calif. 1958); Grant v. Koppl, 99 F.2d 106 (9th Cir. 1938); McRoskey v. Braun Mattress Co., 107 F.2d 143, 147 (9th Cir. 1939).
>
> " 'The mere fact that the accused article performs the same function and achieves the same result as the patented article does not necessarily establish infringement unless it can be found that

[100] I.117-123, 178, 179; DX 139, II.604

this is accomplished in substantially the same way and where, as in this case, the art is fairly crowded and the main elements of the patent are found or indicated in prior art, this issue should be determined narrowly rather than liberally. If in fact, not merely colorably, the accused article departs from the teaching of the patent in the means by which it achieves the result there is no infringement. (citing cases)' ".

The Differences Between the Patent and the Accused Apparatus is Emphasized by the Rejected Exhibit

As a result of pretrial requests by defendants, plaintiff produced certain documentary material, including photographs and a description of its Model 58 feeder which plaintiff started manufacturing after observing the commercial acceptance of the accused apparatus. The differences between Model 58 and the patent are clear from the prior discussion on infringement and a comparison of defendants' exhibits 130, 131 with a photograph of the patented machine, defendants' exhibit 132. The striking similarity between Model 58 and the accused machine is brought out by defendants' photographs of the accused machine, defendants' exhibits 133, 134.

Following Mr. Milbourn's testimony concerning plaintiff's Model 58 feeder.[101] defendants sought to introduce into evidence DX 129 which is a description prepared by an engineer-employee of plaintiff concerning the construction and operation of its Model 58 feed-

[101] I.147, 148

er. In paragraph number 2 of DX 129 the following appears:

> "*Stacks of green veneer are placed in position in front of the feeder on elevators or other hoisting equipment, not a part of the feeder* so that the top of the veneer stack can be maintained at a constant and convenient working height opposite the throat of the receiving rolls of the feeder."[102]

The elevator stated to be "not a part of the feeder" is precisely the same device which plaintiff insists, as far as the accused apparatus is concerned, is a part of the feeder.

The District Court excluded the exhibit at the trial.[103] At the time of the argument upon remand of the case, the matter was again brought up and the District Judge again rejected DX 129.[104] It was improper to exclude that exhibit because it contains a statement by plaintiff at an earlier date directly in conflict with the position taken by plaintiff at the trial. In *Canadian Ingersoll Rand Co.* v. *Peterson Products,* this Court said (350 F.2d 18, 25):

> "Moreover, there is substantial authority for the proposition that it is appropriate to consider the actions and statements against interest of the inventor or patent owner in construing the scope of a patent (citing cases)."

If plaintiff in an engineering description expressly

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[102] For convenience of the Court, DX 129 is reproduced at the back of this brief at App. 3-4.

[103] I.150.

[104] IV.31, 32

excluded the elevator as part of a feeder copied after defendants' it was error for the District Court to include that elevator in reading a claim of plaintiff's patent on defendants' feeder.

The Parker Patent was Invalidly Reissued

Reissue patents are controlled by 35 U.S.C. § 251 and 35 U.S.C. § 252.[105]

The right to a reissue of a patent is exceptional and is given only to those who come clearly within the exception.[106] It is therefore fitting and proper that the Parker reissue patent be closely scrutinized to see if there has been full compliance with 35 U.S.C. § 251. It is defendants' position that there has been substantial non-compliance with the statute.

Under the statute, in order for the Parker reissue to be valid, it must be directed to the same invention as that disclosed in the original patent.[107]

In *Kalich* v. *Paterson Pacific Parchment Co.,* 9 Cir., 1943, 137 F.2d 649, this Court said (p. 652):

> "In regard to the reissue patent, irrespective of the matter of invention, the question is whether in the light of the disclosures contained in both patents, the reissue covers the same invention. It must

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[105] See App. 21-22.

[106] *Lockwood* v. *Langendorf United Bakeries, Inc.,* supra, at 94; see also *Ashland Fire Brick Co.* v. *General Refractories Co.,* 6 Cir., 1928, 27 F.2d 744, 746; *Gerhardt* v. *Kinnaird,* D.C. E.D. Ky., 1958, 162 F. Supp. 858, 864.

[107] *U. S. Industrial Chemicals, Inc.* v. *Carbide and Carbon Chemicals Corporation,* 1942, 315 U.S. 668, 86 L. Ed. 1105.

> be apparent from the face of the instrument that what was embraced in the reissue was intended to have been taught and secured by the original. The invention must have been shown in the original patent. A reissue patent that broadens the claims to cover a new and different combination is void even though the result attained is the same as that brought about by following the process claimed in the original patent."

Also, in *Riley* v. *Broadway-Hale Stores,* 9 Cir., 1954, 217 F.2d 530, 532, the Court said:

> "It must appear upon the face of the original patent that the matter covered by the reissue was intended to have been covered and secured by the original. Leishman v. Associated Wholesale Electric Co., 9 Cir., 137 F.2d 722, 723; Kalich v. Paterson Pacific Parchment Co., 9 Cir., 137 F.2d 649, 652. The broader claims of the reissue must be more than merely suggested or indicated in the original patent. U.S. Industrial Chemicals, Inc. v. Carbide & Carbon Chemicals Corp., 315 U.S. 668, 675-676, 62 S. Ct. 839, 844, 86 L. Ed. 1105. As observed in that case, 'it is not enough that an invention might have been claimed in the original patent because it was suggested or indicated in the specification.' "

This very basic and explicit requirement, however, has been ignored in the Parker reissue patent. Claims 18 through 24 which are new in the reissue, are all directed to an invention different from that embraced in the original patent. These new claims call broadly for a machine having "means for producing relative movement between" a stack of veneer and pinch rolls. Thus,

they seek to include *any means* for producing such relative movement. This is a plain expansion of the invention as originally taught by the Parker patent. In that patent, the only means disclosed for producing such relative movement was elevator motor 100 which lowered or raised the pinch rolls depending upon the veneer stack's height. The original claims made reference only to a vertically movable assembly including pinch rolls, and means for moving the assembly. No mention or suggestion was made of other means for producing such a result. The original patent did not indicate that Parker's original intent was to cover *any means* for producing the relative movement called for in the reissue. That change was made as an afterthought—after suit had been filed and after plaintiff had studied defendants' machine.[108]

The new claims were tailored to read, and do read, squarely on the accused machine. The concept of "any means" for producing the relative movement mentioned is new in the reissue patent. Thus, claims 18-24 which introduce this concept describe an invention which is different from the invention disclosed in the original patent, and which was not indicated in the original patent.

The Parker reissue is invalid also for the reason that new matter was introduced into the reissue application, and the scope of the claims of the original patent was enlarged in an application for reissue filed more than

[108] See *Ashland Fire Brick Co.* v. *General Refractories Co.*, supra, at 741, on the significance of reissuing a patent after seeing defendant's machine.

two years subsequent to the grant of the original patent. Both of these matters are expressly forbidden by 35 U.S.C. § 251.

Plaintiff changed the specification of the reissue patent by adding the words "*or guide*" after the word "conveyor" in the specification.[109] Plaintiff thereby introduced new matter in the application, because the concept of the conveyor table of Parker acting as a guide was completely absent from the original disclosure. Nowhere in the original patent was the conveyor table D shown, described or claimed as a "guide." It was always shown and described as a floating conveyor table comprising power-driven belts which transported veneer from the infeed to outfeed ends of the machine. The reason for this is, obviously, that Parker was concerned with transporting veneer sheets in the region between the infeed and outfeed pinch rolls independently of the pinch rolls, and to do this, it was necessary to employ power driven apparatus operating between the sets of rolls. "Guiding" alone would not have been enough. The equating in the reissue of "conveyor" and "guide" is unsupported by the original disclosure. The addition was made in the reissue patent for the specific purpose of covering the accused machine. While the accused machine has no conveyor table, it does have a plate or table (element 51 in the Jeddeloh patent) which might be considered a "guide" for veneer as it passes from the infeed rolls to the outfeed rolls.

Furthermore, the addition of the words "*or guide*" to

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[109] Col. 2, l. 40

the specification resulted in a broadening of the scope of the claims, such as claims 3, 5 and 7, because "guide" is broader than "conveyor" and claims must be read in light of the specification[110] (in this case in light of the altered specification of the reissue).[111]

Thus, the claims in the reissue patent which call for a "conveyor type table" must now be read to include "guide," because the teaching of the reissue specification is that they are equivalents, and those claims have been broadened. Such broadening is not permitted under the statute even where new matter is not introduced into the reissue, where, as here, the reissue is applied for more than two years after the grant of the original patent.

The reissue patent to Parker is invalid for the further reason that plaintiff also failed to comply with the statutory reissue requirements that an *assignee* may make application for a reissue only "if the application does not seek to enlarge the scope of the claims of the original patent."

To the extent that claims may be enlarged within the two year limit provided in the statute, only the inventor may apply for such enlargement since only he would know the proper extent of his invention, and thus, would be the only one capable of making a valid oath to support the application. Here, however, plaintiff, Coe Manufacturing Company, the assignee of the original patent,

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[110] *Del Francia* v. *Stanthony Corporation,* supra, at 747.

[111] The grant of a reissue patent extinguishes the original patent. *Kinnear-Weed Corp.* v. *Humble Oil & Refining Co.,* supra, at 160.

made the application for the reissue patent through its president, Mr. Milbourn.[112] If we are correct that the scope of at least some of the claims of the original patent was enlarged by the addition of new broader claims 18-24, and by broadening of the meaning of "conveyor type table," then all claims of the reissue, including those carried over unchanged from the original patent, are invalid by reason of a defective oath.

It must be remembered that the right to a reissue patent is "exceptional," and depends upon close adherence to the statutory provisions of 35 U.S.C., § 251. Among those provisions the one expressly prohibiting an assignee under any circumstances from applying for a reissue patent where there is an enlargement of the original claims was not complied with in the present case. Thus, the Parker reissue application was supported by a defective oath, and the resulting reissue patent was illegally granted. As far as we have been able to determine, this is a case of first impression with respect to such an application by an assignee. However, a case which suggests the result which the statute seems to demand is *Staude* v. *Bendix Products Corporation,* D.C. N.D. Ind., 1939, 26 F. Supp. 901, 903, aff'd 7 Cir., 1940, 110 F.2d 484, where the court said:

> "The courts seem to have differed somewhat on the question and, after giving considerable attention to the authorities, I am forced to the conclusion that the true rule is that in a reissue patent properly and legally granted, claims brought forward from the original patent are enforced although some

[112] PX 3, p. ½.

> of the claims of the reissue may be cut down, but that where the reissue is improvidently and illegally granted or where it is tainted with fraud, it is void ab initio, and a claim even though brought forward from the original patent goes out with the reissue. General Electric Co. v. Richmond Street & I. Railway Co., 7 Cir., 178 F. 84; Christensen v. Bragg-Kleisrath, 19 F. Supp. 496."

Finally, according to 35 U.S.C. § 251, a reissue patent is available only to correct "error" in the original patent which results in that patent being wholly or partly inoperative. The "error" referred to in the statute which is correctible by reissue means the same as the phrase "inadvertence, accident or mistake" which appeared in the old reissue statute.[113] After seeing defendants' machine, plaintiff reissued the Parker patent with new claims 18 to 24 which clearly were written to cover defendants' machine. Defendants submit that the Parker reissue was sought not to correct an error in the original patent, but rather to add to it coverage of items entirely lacking, namely, a guide table, and *any* means for producing relative movement between a stack of veneer and the infeed pinch rolls. As the court said in *Gerhardt* v. *Kinnaird,* supra, at 865:

> "In the light of the whole record it is not an unreasonable deduction that the application was not so much to correct an 'error' in the original application but to inject an item which was wholly absent in the original patent; an item which set forth an invention otherwise entirely lacking."

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[113] *Moist Cold Refrigerator Co.* v. *Lou Johnson Co.,* 9 Cir., 1954, 217 F.2d 39.

Such a reissue patent is not in accord with the statute and is entirely void ab initio.

The Individual Defendants are Not Personally Liable for Infringement Damages

Defendants moved to amend the judgment to eliminate findings of individual liability of Fred and Otto Jeddeloh.[114] The Court denied defendants' motion[115] and entered judgment against the individual defendants, as well as against the defendant corporation.[116]

The general rule is that an officer of a corporation who acts as an officer and does not willfully and outside of his capacity as an officer infringe a patent is not personally liable. The rule was stated in *Dangler* v. *Imperial Mach. Co.*, 7 Cir., 1926, 11 F.2d 945, 947, as follows:

> "It is when the officer acts willfully and knowingly—that is, when he personally participates in the manufacture or sale of the infringing article (acts other than as an officer), or when he uses the corporation as an instrument to carry out his own willful and deliberate infringements, or when he knowingly uses an irresponsible corporation with the purpose of avoiding personal liability—that officers are held jointly with the company. The foregoing are by no means cited as the only instances when the officers may be held liable, but they are sufficient for the present case."

In *Powder Power Tool Corp.* v. *Powder Actuated*

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[114] IV.123.
[115] III.40.
[116] III.48.

Tool Co., 7 Cir., 1956, 230 F.2d 409, the Seventh Circuit reaffirmed the rule of the *Dangler* case and reversed a finding of individual liability where the individual had never sold the article for his own account, the corporation had not been organized to carry on infringing activities and there was no showing of corporate insolvency. The court said (p. 414):

> "In Dangler v. Imperial Machine Co., 7 Cir., 11 F.2d 945, 946, this court said: '* * * respecting the liability of officers of a corporation for its infringements * * *. If the officers act merely as officers, they are not liable jointly with the corporation. * * * we adhere to the Cazier v. Mackie-Lovejoy Mfg. Co. decision (7 Cir., 138 F. 654), and hold that, in the absence of some special showing, the managing officers of a corporation are not liable for the infringements of such corporation, though committed under their general direction.' In our opinion that part of the judgment holding Frank J. Klunk, Sr., personally liable is clearly erroneous. Trico Products Corp. v. Ace Products Corp., D.C., 30 F.2d 688, 689."

The rule of the *Dangler* case has been followed in the Ninth Circuit.[117]

In this circuit it is only in a case where the court has found that an individual dominated a corporation or used the corporation as a front to cover up infringing activities that the individual was held liable along with

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[117] *Wisconsin Alumni R.F.* v. *Vitamin Technologists,* D.C. Cal., 1941, 41 F. Supp 857, affirmed in part (with respect to personal liability of corporate officers), 9 Cir., 1945, 146 F.2d 941; and *Zell* v. *Bankers' Utilities Co.,* 9 Cir., 1935, 77 F.2d 22.

the corporation.[118]

There was no showing of any special circumstances such as to hold the Jeddelohs personally liable. Quite the contrary, everything indicates that they functioned completely within their capacities as officers and employees of defendant corporation, Jeddeloh Brothers Sweed Mills, Inc., which is a legitimate solvent corporation organized in 1955 to go into the business of manufacturing gang saws. Defendant corporation went into the business of manufacturing veneer dryer feeders at the request of a plywood-manufacturing mill. Fred Jeddeloh was in charge of the business aspects of the company, and his brother, Otto, was responsible for engineering and machine design.[119] There is no suggestion that they acted other than as corporate employees.

The District Court held that infringement was not willful or wanton[120] and that they had not made a Chinese copy of the patented machine.[121] Under these circumstances, the individual defendants should have been held free of personal liability.

The Amount of Damages Has Been Incorrectly Determined

It was stipulated between the parties with the approval of the Court, that damages could be determined by the Court based on what a reasonable royalty would

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[118] *Moseley* v. *United States Appliance Corporation,* 9 Cir., 1946, 155 F.2d 25. The *Moseley* case was discussed in *Ronson Corp.* v. *Maruman of California, Inc.,* D.C., S.D. Cal., 1963, 224 F. Supp. 479.

[119] I.112-116.

[120] III.10

[121] IV.136, 261.

be for the use of the patented invention.[122]

Plaintiff has never received any royalties nor had any licensees under the patent in suit.[123] The short history of plaintiff's licensing dates back to the original Parker patent under which plaintiff had two licensees, in the years 1956 and 1957. One of these licensees was American Manufacturing Company of Tacoma, a supplier of plaintiff which had "a special license" at a royalty of $1,000.00 per machine for three machines, each of which sold for an average of about $18,500.[124]

The other licensee was Moore Dry Kiln Company which was licensed for a period of two years at a royalty rate of 5% of plaintiff's established selling price. Plaintiff's established selling price at that time was $18,750, and Moore paid royalties on three feeders.[125] Mr. Duncan, Moore's president at the time of the license, testified and produced copies of correspondence between him and Mr. Milbourn showing that at the time the Moore Company became a licensee it had been charged with patent infringement.[126] Neither Mr. Milbourn nor plaintiff's attorney, Mr. Hoffman had any recollection of the patent infringement charges made against the Moore Company.[127]

The character and number of royalty payments under the original Parker patent were insufficient to indicate an established royalty rate under that patent, much

[122] IV.158.
[123] IV.176
[124] IV.162, 178, 212, 214; PXs 63-69.
[125] IV.164, 165, 166, 179; PXs 56-62
[126] IV.202-204, 256; DXs 301, 302
[127] IV.178, 205

less under the reissue. In a leading case on the subject of patent royalties, this Court said in *Faulkner* v. *Gibbs,* 9 Cir., 1952, 199 F.2d 635, 638:

> "In order that a royalty may be accepted as 'established' it must have been paid prior to the infringement complained of; it must have been paid by such a number of persons as to indicate a general acquiescence in its reasonableness by those who have had occasion to use the invention; and it must have been uniform at the places where licenses were issued.
>
> "Royalties paid under threat of suit or in settlement of claims for past infringement cannot be taken as a standard to measure the value of the patent. 'The avoidance of the risk and expense of litigation will always be a potential motive for a settlement.' "

At the hearing on what a reasonable royalty rate should be, each side called its president and a patent lawyer expert. Defendants also subpoenaed employees of plaintiff's ex-licensees American Manufacturing and the Moore Company. Additionally, defendants subpoenaed Mr. Harold Evans, the most qualified and impartial person they knew of to testify concerning royalty rates on plywood-manufacturing equipment. Mr. Evans has been director of the Plywood Research Foundation of the American Plywood Association (formerly Douglas Fir Plywood Association) for twenty years. He is completely neutral as far as the parties are concerned. Mr. Evans' work is to advance the technology of the plywood industry. He is continually dealing with improvements in plywood manufacturing and the patents thereon. In

his employment he has had wide experience in the licensing of equipment similar to that involved in the present suit. Mr. Evans was familiar with the Parker patent, with the accused machine, and with all the important factors which bear on determining a reasonable royalty rate. He stated that in his opinion, a rate of 3% of the sales price of defendants' equipment, i.e., that equipment which included the combination of a feeder and hoist, would be a reasonable royalty.[128]

At the conclusion of the hearing of August 11, 1965, the District Judge announced that he was going to allow plaintiff $750 per machine for each machine made and sold by defendants, regardless of whether the feeder was sold with or without a hoist, and regardless of the sales prices of the machines. He fixed a supersedeas bond in the amount of $135,000.[129]

On August 16, 1965, counsel for plaintiff personally presented to Judge Solomon supplemental findings of fact, order fixing damages, order denying motion for new trial and amendment of judgment. Judge Solomon forthwith signed those documents.[130] Copies of those documents were inadvertently directed to defendants' counsel at an office address—501 Pacific Building—which he had left almost a year earlier. Later, when defendants' counsel learned that the originals of the copies of the documents he had received had already been signed, he requested the Court to extend time for taking an appeal and filing supersedeas bond and grant a hear-

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[128] IV.215-220
[129] IV.252, 253
[130] III.33-39

ing with respect to making certain amendments and additions to the orders which had been entered.[131] Judge Solomon granted the hearing and the extension of time but struck out the amount of the supersedeas bond on the order submitted.[132] Thereafter, at the hearing on August 26, 1965, the Court stated that it had erred previously when it allowed a royalty of $750 per each of the defendants' machines and raised the royalty to $825 per machine which the Court said was 5% of the sales price of the accused machine.[133]

Defendants submit that under all the circumstances of the case, an award of $825 per machine, or 5% of defendants' maximum selling price, is unjustified and clearly erroneous. The clear weight of credible evidence which was introduced regarding the amount of damages, supports a royalty of no more than 3% of the selling price on defendants' machines—those which included the combination of a feeder and hoist.

During the course of this litigation, there has been considerable doubt about whether the accused apparatus infringes claim 17 of the Parker reissue patent. The Trial Judge at first believed that the claim was not infringed, and five years later changed his mind. Throughout that period defendants were making and selling the accused machines. After his second opinion, the Trial Judge expressly stated on several occasions that defendants' equipment was not a Chinese copy of plaintiff's

[131] III.78-80
[132] III.42, 81, 82
[133] IV.261, 271

equipment.[134] Under such circumstances, it would be erroneous for a court to adopt as a measure of damages, a royalty rate substantially the same as that paid by licensees who were permitted to use and copy the whole invention. In effect, this is what the District Court did in computing damages on the basis of a 5% royalty, which is substantially the same amount paid by American Manufacturing and Moore.

Even if it were appropriate to measure damages by a royalty paid under prior licenses, the American and Moore licenses do not justify the court's award. Those license agreements arose under special circumstances where plaintiff had a decided advantage in demanding and obtaining a high royalty rate. In the case of American Manufacturing, the license related to the sale of three machines, and its terms were literally dictated by plaintiff which was and is a customer of American.[135] In the case of the Moore Company, the license was taken under threat of patent infringement.[136] The royalties paid under those licenses were hardly a matter of negotiations between the parties.

An additional reason for limiting the royalty here to 3% is that we are dealing with infringement of only a single claim of plaintiff's reissue patent. Even if 5% were the royalty which plaintiff would get in a negotiated license, plaintiff is not entitled to a 5% royalty from an infringer of only one of the twenty-five claims in the patent. Tenuous infringement of only one claim does not

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[134] IV.131, 261
[135] III.212, 213, 214
[136] III.202; DXs 301, 302

justify a royalty as high as that paid by American and Moore for licenses under the entire patent.

In *Philp* v. *Nock,* 1873, 17 Wall. 460, 462, the Supreme Court said:

> "Where the infringement is confined to a part of the thing sold, the recovery must be limited accordingly. It cannot be as if the entire thing were covered by the patent; or, where that is the case, as if the infringement were as large as the monopoly."

And in *Wooster* v. *Simonson,* C.C. S.D., N.Y., 1883, 16 Fed. 680, the court said, with respect to infringement damages, that the value of the entire property in an invention does not furnish a criterion of the value of a part, or of the right to use a part, in the absence of evidence to show the relative difference in value between the whole and the part. Also, in *Hunt Bros. Fruit Packing Co.* v. *Cassidy,* 9 Cir., 1892, 53 Fed. 257, with reference to infringement damages, the court said that the proof of a license fee for two improvements which were expressed in two claims in the patent in suit, is not competent to show the damage sustained by an infringement of only one of the improvements expressed in one of the claims.[137]

Not only has the District Court arrived at too high a royalty figure, but also, it has erred in its application of the amount. During the period in which defendants are

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[137] See also Deller's Walker on Patents, Vol. III, § 828 at page 2163:

> "Where an infringement was less in extent or duration than the corresponding acts which were authorized by the licenses which established the royalty, it is but just that the damages should be assessed at correspondingly smaller sums."

charged with infringement, they sold feeders alone as well as the feeder and hoist combinations which are concerned in this suit. The District Court found that only claim 17 had been infringed, and in order to do this, it had to construe that claim to cover the combination of a feeder and hoist. Thus, no royalty should be owing on the sales of feeders alone, since only the sale of a feeder and hoist in combination can infringe the claim.

As of August 26, 1965, defendants had sold 169 feeder and hoist combinations for a total sales price of $2,537,247.70.[138] Defendants also had sold nine feeders alone, without hoists, for a total price of $96,000. Defendants submit that this latter amount should not be included in the computation of damages.[139]

Finally, from the date (1958) on which defendants first started making and selling feeders to the present, the selling price of defendants' feeder and hoist combinations has varied from $10,000 to $16,500. In view of this variation, which is a matter of record ascertainable from defendants' invoices,[140] it was error to apply a per-machine charge which is identical for each machine sold. Whatever percentage royalty rate may ultimately be applied in the event this Court concludes that plaintiff is entitled to damages, should be applied to the exact sale price of each infringing machine.

For these reasons, defendants submit that the damages awarded by the District Court were excessive and

[138] DXs 152-291
[139] DXs 292-300
[140] DXs 152-291

erroneous, and should be reduced if this Court sustains plaintiff's right to any recovery.

CONCLUSION

For the reasons set forth above, the judgment of the District Court should be reversed, and the complaint dismissed.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

J. PIERRE KOLISCH
Attorney for Appellants and Cross-Appellees

APPENDIX

PLAINTIFF'S EXHIBITS

FIRST TRIAL IN DISTRICT COURT, VOL. I

Exhibit No.	Identified	Offered	Received	Rejected
1-2 inc.	Pretrial Order	278	278	
3-4 inc.	"	171	171	
5-6 inc.	"	278	279	
8	"	278	279	
13	"	276	276	
20	"	277	277	
20a	"	278	278	
21	"	277	277	
21a	"	278	278	
22	"	277	277	
22a	"	278	278	
23-50 inc.	"	280	280	
51-54 inc.	282	282	282	
55	283	283	283	

DEFENDANTS' EXHIBITS

FIRST TRIAL IN DISTRICT COURT, VOL. I

Exhibit No.	Identified	Offered	Received	Rejected
101-123 inc.	Pretrial Order	162	162	
124	165	162	162	
125-128 inc.	153	153	153	253
129	149	149*		150†
130-131 inc.	148	148	148	
132-134 inc.	140	140	140	
135-140 inc.	162	162	162	
141	140	140,	140	
		254	254	
142	254	256	256	
143	276	276	276	
144				

* Offered again in Vol. IV.31.

† Rejected again in Vol. IV.32.

PLAINTIFF'S EXHIBITS

Trial on Remand, Vol. IV

Exhibit No.	Identified	Offered	Received	Rejected
56-61 inc.	164	168	168	
62		168	168	
63-67 inc.	161	168	168	
68-69 inc.		168	168	
70	170	168	168	
71		168	168	
72	167	168	168	
73	247	247	247	

DEFENDANTS' EXHIBITS

Trial on Remand, Vol. IV

Exhibit No.	Identified	Offered	Received	Rejected
150	168	168	168	
151	211	211	211	
152-291 inc.	255	255	255	
292-300 inc.	255	255	256	
301-302 inc.	256	256	256	

DX 129

SPECIFICATION OF	METHOD OF OPERATION FOR THE SHORT TIPPLE VENEER DRYER FEEDER, MODEL 58
PURCHASER	
DATE	JUNE 27, 1958
WRITTEN BY	R. H. FOLTZ
TYPED BY	JEANNE PETE
CHECKED BY	E. G. HUDAK
APPROVED BY	

DRAWING NO. PART NO. QUANTITY DESCRIPTION REMARKS

REFERENCE DRAWINGS

A-20607-1	GENERAL ARRANGEMENT OF SHORT TIPPLE VENEER DRYER FEEDER
A-20727	TIMING DEVICE ASSEMBLY
B-17451-1	SCHEMATIC ELECTRIC CIRCUIT AND WIRING DIAGRAM
B-17534	SWITCH LAYOUT

PURPOSE OF THE MODEL 58 FEEDER

1. THE COE MODEL 58 SHORT TIPPLE TYPE VENEER DRYER FEEDER IS A MACHINE INTENDED TO MAKE IT POSSIBLE FOR A SINGLE OPERATOR TO MECHANICALLY FEED SHEETS OF VENEER FROM A STACK INTO THE FEED SECTION OF THE VENEER DRYER. THE MACHINE WILL FEED THE DRYER DECKS IN A DEFINITE SEQUENCE AND AT A TIME CYCLE, DEPENDENT ON DRYING TIME AND VENEER LENGTH, SO THAT THE DRYER IS FILLED TO ITS MAXIMUM CAPACITY AT ALL TIMES AND THUS PROVIDING THE MAXIMUM PRODUCTION FROM THE DRYER. THE MACHINE WILL HANDLE ANY VENEERS 40 INCHES OR LONGER

ARRANGEMENT & DESCRIPTION OF ALL EQUIPMENT

2. THE MODEL 58 FEEDER AND ASSOCIATED EQUIPMENT IS GENERALLY ARRANGED AS SHOWN ON DRAWING A-20607-1. STACKS OF GREEN VENEER ARE PLACED IN POSITION IN FRONT OF THE FEEDER ON ELEVATORS OR OTHER HOISTING EQUIPMENT, NOT A PART OF THE FEEDER, SO THAT THE TOP OF THE VENEER STACK CAN BE MAINTAINED AT A CONSTANT AND CONVENIENT, WORKING HEIGHT OPPOSITE THE THROAT OF THE RECEIVING ROLLS OF THE FEEDER. THE MODEL 58 FEEDER IS A SINGLE UNIT ASSEMBLY POSITIONED TO LINE UP WITH THE FIRST ROLLS OF THE DRYER FEED SECTION DECKS.

3. THE MODEL 58 FEEDER IS A SELF CONTAINED ASSEMBLY CONSISTING OF A STRUCTURAL STEEL AND WELDED FRAME SUPPORTING A TIPPLE ASSEMBLY. THE RECEIVING SIDE OF THE TIPPLE CONTAINS A PINCH ROLL ASSEMBLY. THE LOWER ROLL IS A CONTINUOUS ROLL IN A FIXED POSITION. THE UPPER PINCH ROLL CONSISTS OF MANY INDIVIDUAL RUBBER WHEELS. AIR CYLINDERS ARE ARRANGED TO RAISE AND LOWER THE TOP ROLLS. A STOP GATE OR POSITIONING GUIDE, IS LOCATED BEHIND THE PINCH ROLLS. THE DISCHARGE END CONTAINS A SECOND SET OF PINCH ROLLS NEXT TO THE FIRST ROLLS OF THE DRYER FEED SECTION. THIS SET OF PINCH ROLLS REMAIN CLOSED AT ALL TIMES.

4. THE ACTION OF THE HOIST AND TIPPLE ARE CONTROLLED BY A TIMING DEVICE SHOWN ON DRAWING A-20727. BRIEFLY THIS TIMING DEVICE CONSISTS OF WHEEL, DRIVEN FROM THE HOIST DRIVE SHAFT, WITH AN ADJUSTABLE CAM FOR EACH DECK OF THE FEED SECTION MOUNTED ON THE CIRCUMFERENCE OF THE WHEEL. TWO LIMIT SWITCHES (LS-5 AND LS-6) ARE TRIPPED BY THE CAMS TO STOP THE HOIST ACTION AND PLACE THE DISCHARGE PINCH ROLLS OF THE FEEDER OPPOSITE THE DECKS OF THE DRYER FEED SECTION.

5. THE TIME CYCLE AVAILABLE TO LOAD EACH DECK OF THE DRYER IS DEPENDENT ON THE DRYING TIME OF THE PARTICULAR VENEER, THE NUMBER OF DECKS IN THE DRYER AND THE LENGTH OF THE VENEERS. THE ACCURATE MEASUREMENT OF THIS TIME CYCLE IS CONTROLLED BY A SMALL ADJUSTABLE SPEED TRANSMISSION UNIT DRIVEN FROM THE DRYER AND OPERATES TWO LIMIT SWITCHES, LS-9 AND LS-10 CONTROLLING THE INDEXING AND FEED TIME. SINCE THE DRIVE IS FROM THE DRYER,CHANGES IN DRYER SPEED WILL AUTOMATICALLY CHANGE THE FEED TIME CYCLE. THE TRANSMISSION IS ONLY CHANGED WHEN CHANGING LENGTH OF VENEER TO BE FED INTO THE DRYER.

DETAILED DESCRIPTION OF OPERATION

6. ASSUME A FULL LOAD OF VENEER IS IN POSITION IN FRONT OF THE FEEDER AND THE TOP OF THE LOAD IS IN LINE WITH THE OPENING BETWEEN THE RECEIVING PINCH ROLLS OF THE FEEDER. SEE A-20607-1. ASSUME THE TIPPLE OF THE FEEDER IS IN ITS LOWER POSITION IN LINE WITH LOWEST (#1) DECK OF THE DRYER FEED SECTION, AND THAT THE DRYER AND FEEDER ARE RUNNING.

7. THE OPERATOR PUSHES SHEETS OF VENEER FROM THE TOP OF THE LOAD INTO THE OPENING BETWEEN THE RECEIVING PINCH ROLLS AND COMPLETELY FILLS THE ENTIRE LENGTH OF PINCH ROLLS. THE STOP GATE DESCRIBED IN PARAGRAPH 3 IS IN ITS DOWN POSITION AND SERVES TO ALIGN THE ENDS OF ALL PIECES OF VENEER.

8. THE ELECTRICAL CIRCUIT IS IN THE CONDITION SHOWN ON B-17451-1. WHEN THE DRYER HAS DRIVEN THE VARIABLE TRANSMISSION THRU ITS CYCLE THE CAM ON THE OUTPUT SHAFT OF THE TRANSMISSION WILL TRIP LS-10 AND CLOSE THE CIRCUIT TO THE SOLENOID VALVE. THE VALVE OPERATES THE AIR CYLINDERS AND CLOSES THE ROLL AND RAISES THE STOP GATE. THE ROLLS PULL THE VENEER FROM THE TOP OF STACK AND THRU THE FEEDER. THE DISCHARGE PINCH ROLLS FEED THE VENEER INTO THE LOWER (#1) DECK OF THE FEED SECTION. THE CAM HOLDING LS-10 NOW RELEASES IT TO DE-ENERGIZE THE SOLENOID VALVE AND OPEN THE PINCH ROLLS AND LOWER THE STOP GATE. THE OPERATOR MAY NOW PUSH THE NEXT LOAD OF VENEER INTO THE FEEDER AT HIS CONVENIENCE. AS THE HEIGHT OF THE VENEER STACK DECREASES THE OPERATOR SHOULD RAISE HIS ELEVATOR OR HOIST TO MAINTAIN THE STACK LEVEL WITH THE PINCH ROLLS OF THE FEEDER.

9. AFTER THE FIRST LOAD OF VENEER ENTERS COMPLETELY INTO THE LOWER (#1) DECK OF THE DRYER AND LS-10 IS RELEASED, THE CAM ON THE TRANSMISSION UNIT WILL TRIP LS-9. THIS CLOSES THE CIRCUIT THRU LS-9, LS-6, LS-7U, LS-5 TO MAGNETIC STARTER 1U. THE STARTER OPERATES THE HOIST MOTOR AND HOIST TO MOVE THE TIPPLE IN THE "UP" DIRECTION. INTERLOCK CONTACT 1U OF THE STARTER CLOSES BETWEEN LINES 1 AND 4 TO HOLD THE MOTOR CIRCUIT AFTER THE TRANSMISSION UNIT RELEASES LS-9.

10. THE TIPPLE CONTINUES TO MOVE UPWARD AND THE HOIST SHAFT IS NOW ROTATING THE DISC AND CAMS OF THE TIMING DEVICE, A-20727. AS THE DISCHARGE ROLLS OF THE FEEDER COME INTO POSITION OPPOSITE THE SECOND DECK OF THE DRYER FEED SECTION , THE FIRST CAM T8 IN THE TIMER WILL TRIP LS-5. THIS ACTION OPENS THE CIRCUIT TO THE 1U MOTOR STARTER, THE MOTOR STOPS AND THE MAGNETIC UNIBRAKE (BUILT INTO THE MOTOR) HOLDS THE FEEDER TIPPLE IN ALIGNMENT WITH THE #2 DECK OF THE FEED SECTION.

11. AFTER THE PROPER TIME HAS PASSED THE TRANSMISSION UNIT WILL AGAIN TRIP LS-10 TO FEED THE VENEER INTO THE SECOND DECK IN EXACTLY THE SAME MANNER AS DESCRIBED IN PARAGRAPH 8. THESE FUNCTIONS DESCRIBED IN PARAGRAPHS 8, 9 AND 10 AUTOMATICALLY REPEAT THEMSELVES TO FEED VENEER INTO SUCCESSIVELY HIGHER DECKS UNTIL THE FEEDER TIPPLE REACHES THE TOP DECK OF THE DRYER.

12. WHEN THE HOIST LIFTS THE TIPPLE INTO POSITION AT THE TOP DECK THE TIMING DEVICE DOES NOT TRIP LS-5 AS PREVIOUSLY DESCRIBED BUT A SPECIAL CAM T10 TRIPS LS-6. LIMIT SWITCH LS-6 OPENS THE CIRCUIT TO THE 1U MOTOR STARTER AND STOPS THE TIPPLE IN POSITION AT THE TOP DECK. LS-6 ALSO HAS A SECOND CIRCUIT WHICH NOW CLOSES IN THE CIRCUIT TO THE 1D MOTOR STARTER BUT STARTER 1D DOES NOT OPERATE AT THIS TIME BECAUSE LS-9 AND 1D INTERLOCK ARE OPEN.

PLAINTIFF'S EXHIBITS

TRIAL ON REMAND, VOL. IV

Exhibit No.	Identified	Offered	Received	Rejected
56-61 inc.	164	168	168	
62		168	168	
63-67 inc.	161	168	168	
68-69 inc.		168	168	
70	170	168	168	
71		168	168	
72	167	168	168	
73	247	247	247	

DEFENDANTS' EXHIBITS

TRIAL ON REMAND, VOL. IV

Exhibit No.	Identified	Offered	Received	Rejected
150	168	168	168	
151	211	211	211	
152-291 inc.	255	255	255	
292-300 inc.	255	255	256	
301-302 inc.	256	256	256	

PAGE No. 2 of 2	THE COE MANUFACTURING COMPANY, PAINESVILLE, OHIO	SPECIFICATION NO. 4061
SPECIFICATION OF	METHOD OF OPERATION FOR THE SHORT TIPPLE VENEER DRYER FEEDER, MODEL 58	DATE JUNE 27, 1958
		WRITTEN BY R. H. FOLTZ
		TYPED BY JEANNE PETE
PURCHASER		CHECKED BY E. G. HUDAK
		APPROVED BY

DRAWING NO	PART NO	QUANTITY	DESCRIPTION	REMARKS

13. AFTER THE TRANSMISSION UNIT OPERATES LS-10 IN A NORMAL MANNER TO FEED THE VENEER INTO THE TOP DECK (SAME AS PARAGRAPH 8) THE LIMIT SWITCH LS-9 WILL CLOSE IN A NORAML MANNER. THIS PROVIDES A CIRCUIT THRU LS-9, LS-6 (4-10) LS-7D, TO ENERGIZE STARTER 1D. INTERLOCK CONTACT 1D OF THE STARTER WILL CLOSE TO MAINTAIN THE CIRCUIT AFTER THE TRANSMISSION UNIT RELEASE LS-9. THE ACTION OF ENERGIZING 1D STARTER MAKES THE HOIST MOTOR RUN IN THE OPPOSITE DIRECTION TO MOVE THE TIPPLE "DOWN".

14. THE TIPPLE WILL MOVE DOWNWARD THE TOTAL DISTANCE FROM THE TOP DECK TO THE BOTTOM (#1) DECK. THIS ROTATES THE TIMING DEVICE IN THE OPPOSITE DIRECTION SO THAT WHEN THE TIPPLE IS AGAIN IN LINE WITH THE BOTTOM #1 DECK CAM #T9 WILL TRIP LS-6.

15. LS-6 NOW IS RETURNED TO THE POSITION SHOWN IN CIRCUIT B-17451-1. THE LS-6 CONTACT 4-10 OPEN THE CIRCUIT TO THE 1D STARTER TO STOP THE HOIST MOTOR. THE OTHER LS-6 CONTACT 4-11 CLOSES BUT STARTER 1U DOES NOT OPERATE BECAUSE LS-9 AND 1U INTERLOCK CONTACT ARE OPEN. THE FEEDER TIPPLE IS NOW POSITIONED AT THE BOTTOM (#1) DECK. THE FIRST VENEER PLACED INTO THIS DECK (PARAGRAPH 8) HAS NOW PROGRESSED INTO THE DRYER FAR ENOUGH SO THAT SUFFICIENT SPACE IS AVAILABLE ON THE DRYER FEED SECTION TO RECEIVE THE NEXT LOAD OF VENEER.

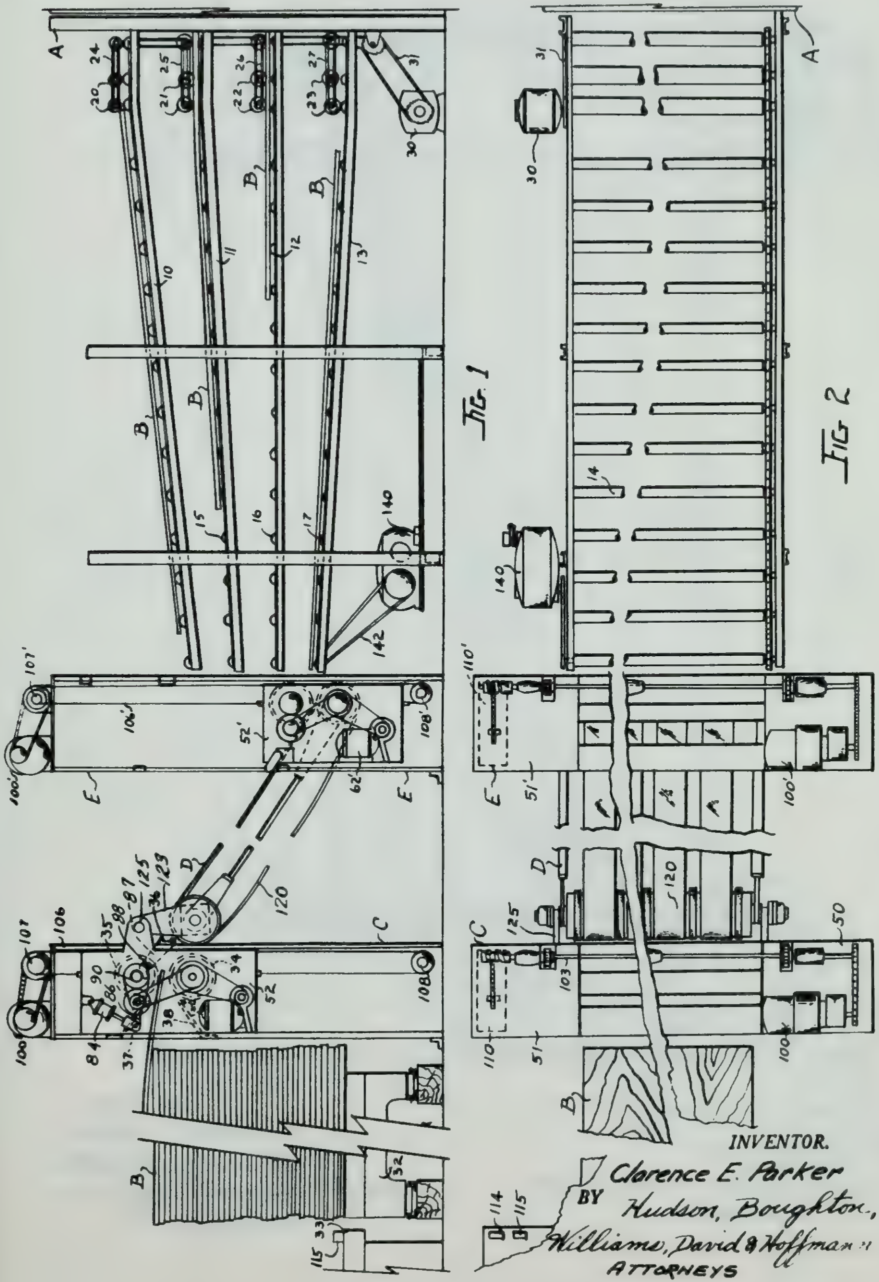
16. THIS DESCRIPTION (PARAGRAPHS 7 THRU 15) COVERS ONE COMPLETE CYCLE OF OPERATION FOR THE MACHINE. THE ENTIRE CYCLE WILL AUTOMATICALLY CONTINUE TO REPEAT. THE CYCLE TIME WILL AUTOMATICALLY BE ADJUSTED BY DRYER SPEED. HOWEVER THE SYCHRONIZING VARIABLE TRANSMISSION MUST BE ADJUSTED MANUALLY FOR CHANGES IN LENGTH OF VENEER. LIMIT SWITCHES LS-7U AND LS-7D ARE NOT PART OF THE NORMAL OPERATING SEQUENCE OF THE MACHINE BUT ARE OVER-TRAVEL SAFETY SWITCHES. IN THE CASE OF MECHANICAL OR ELECTRICAL FAILURE OF OTHER SWITCHES THE TIPPLE WOULD OPEN THESE SWITCHES STOPPING THE HOIST MOTOR. IT WILL THEN BE NECESSARY TO MANUALLY MOVE THE TIPPLE OFF THE SWITCHES. SWITCHES LS-7U AND LS-7D ARE MOUNTED IN THE SIDE FRAME OF THE FEEDER ARE TRIPPED BY THE TIPPLE FRAME.

PLAINTIFF'S EXHIBIT 2

April 21, 1959 C. E. PARKER **Re. 24,638**

APPARATUS FOR HANDLING VENEER

Original Filed Aug. 4, 1948 7 Sheets-Sheet 1



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April 21, 1959 C. E. PARKER Re. 24,638

APPARATUS FOR HANDLING VENEER

Original Filed Aug. 4, 1948 7 Sheets-Sheet 2

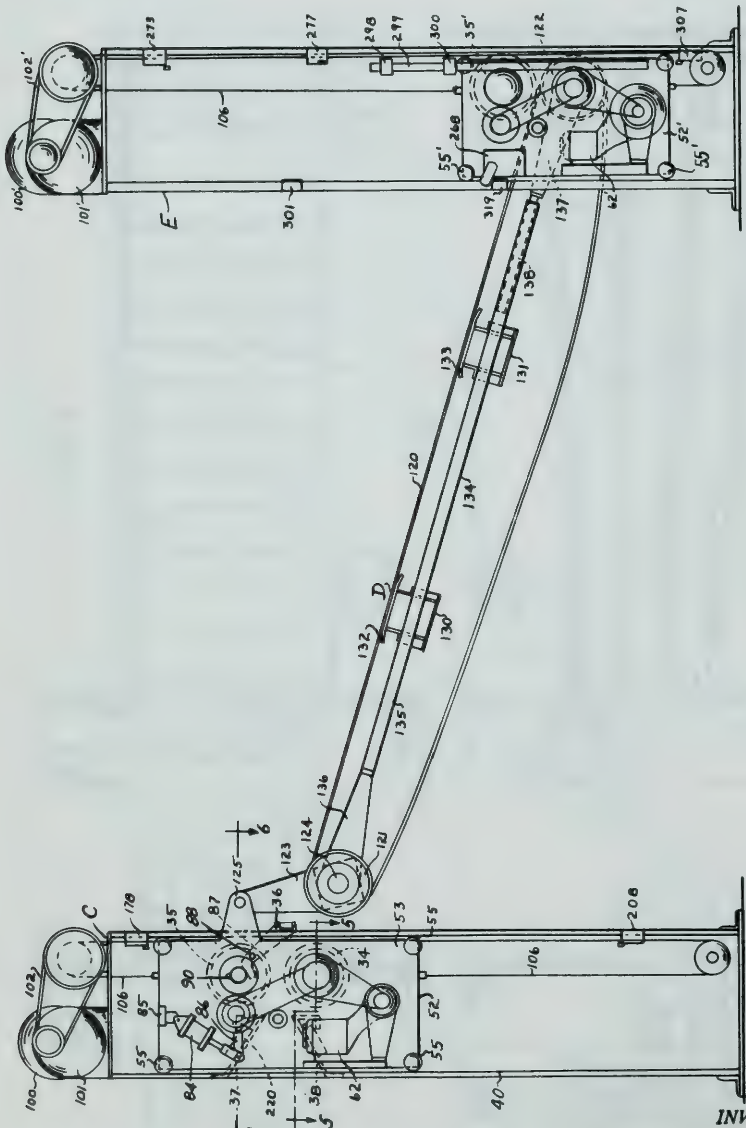

FIG. 3

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APPARATUS FOR HANDLING VENEER

Original Filed Aug. 4, 1948 7 Sheets-Sheet 3

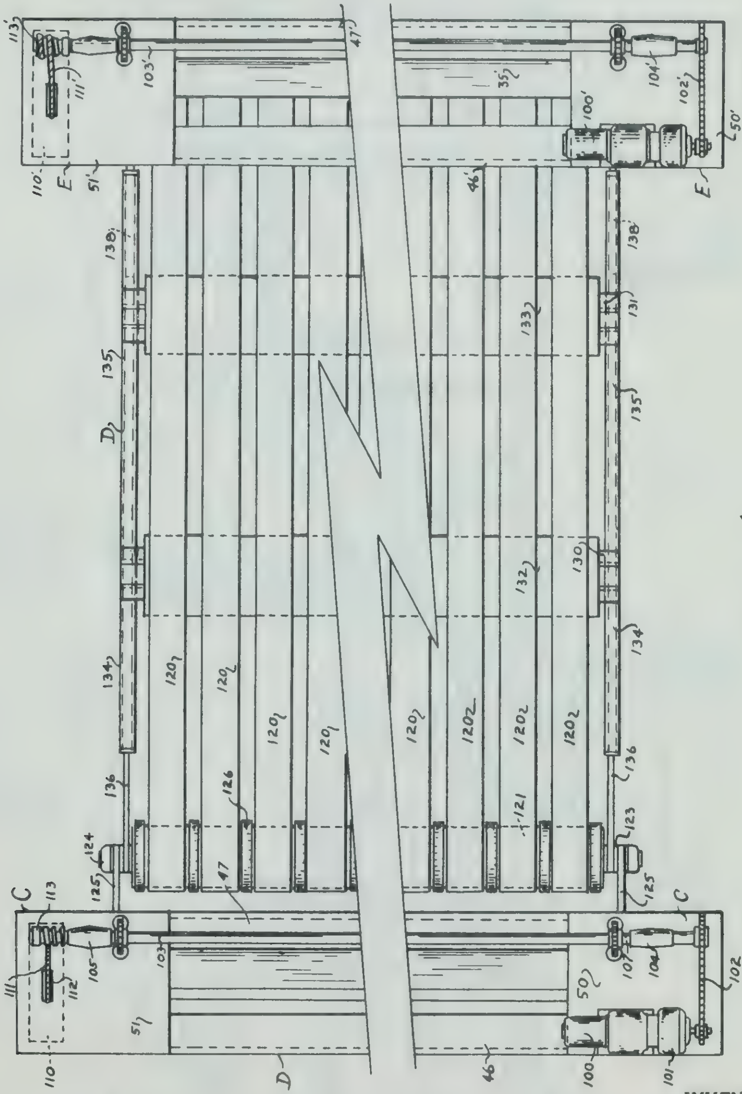

FIG 4

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April 21, 1959 C. E. PARKER Re. 24,638

APPARATUS FOR HANDLING VENEER

Original Filed Aug. 4, 1948 7 Sheets-Sheet 4

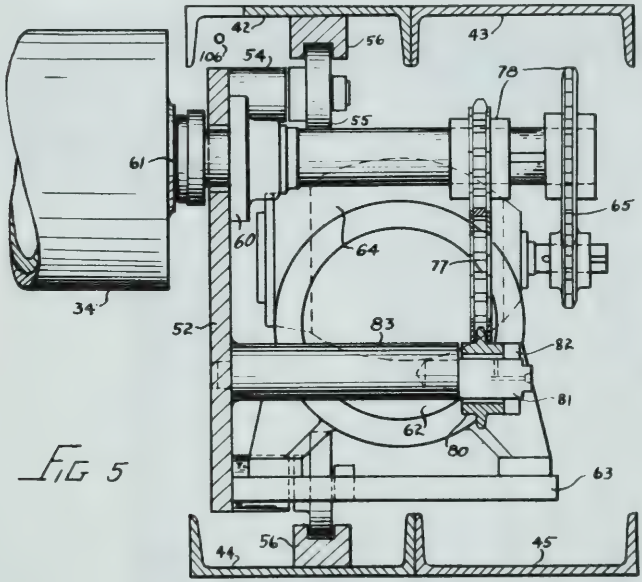

FIG 5

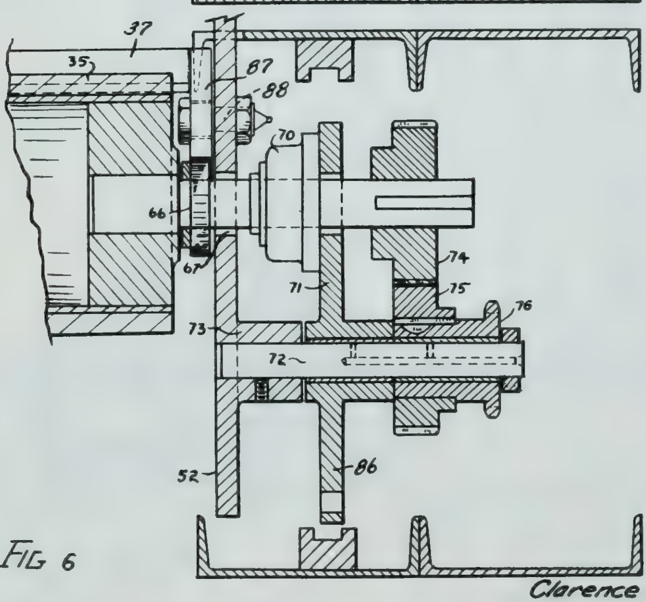

FIG 6

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APPARATUS FOR HANDLING VENEER

ginal Filed Aug. 4, 1948

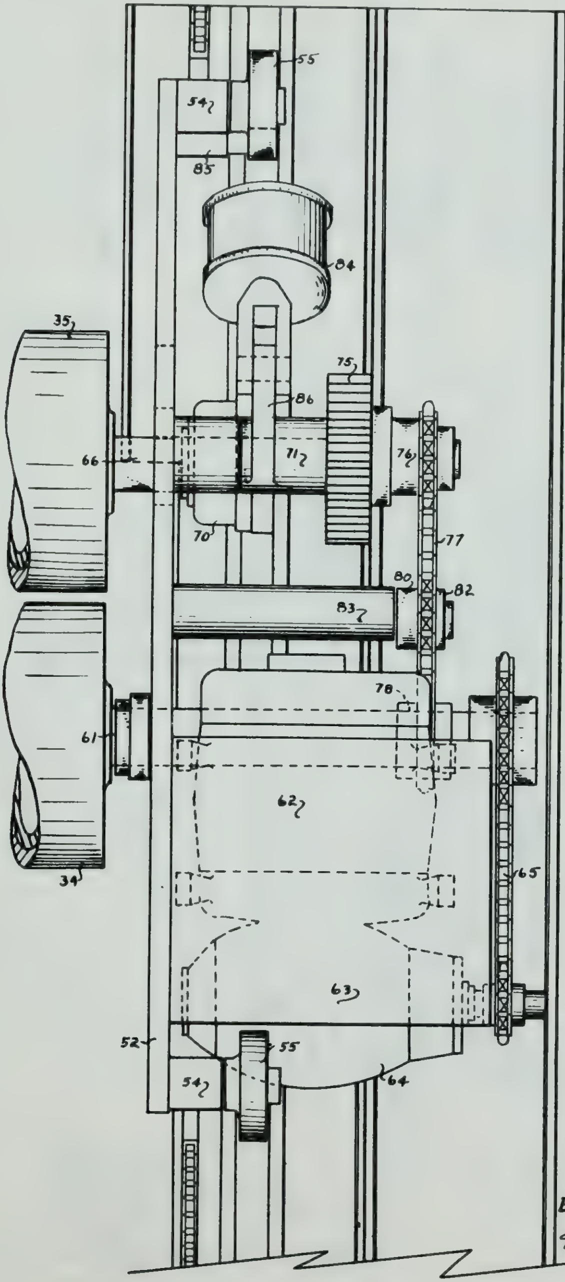

FIG 7

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APPARATUS FOR HANDLING VENEER

Original Filed Aug. 4, 1948 7 Sheets-Sheet 6

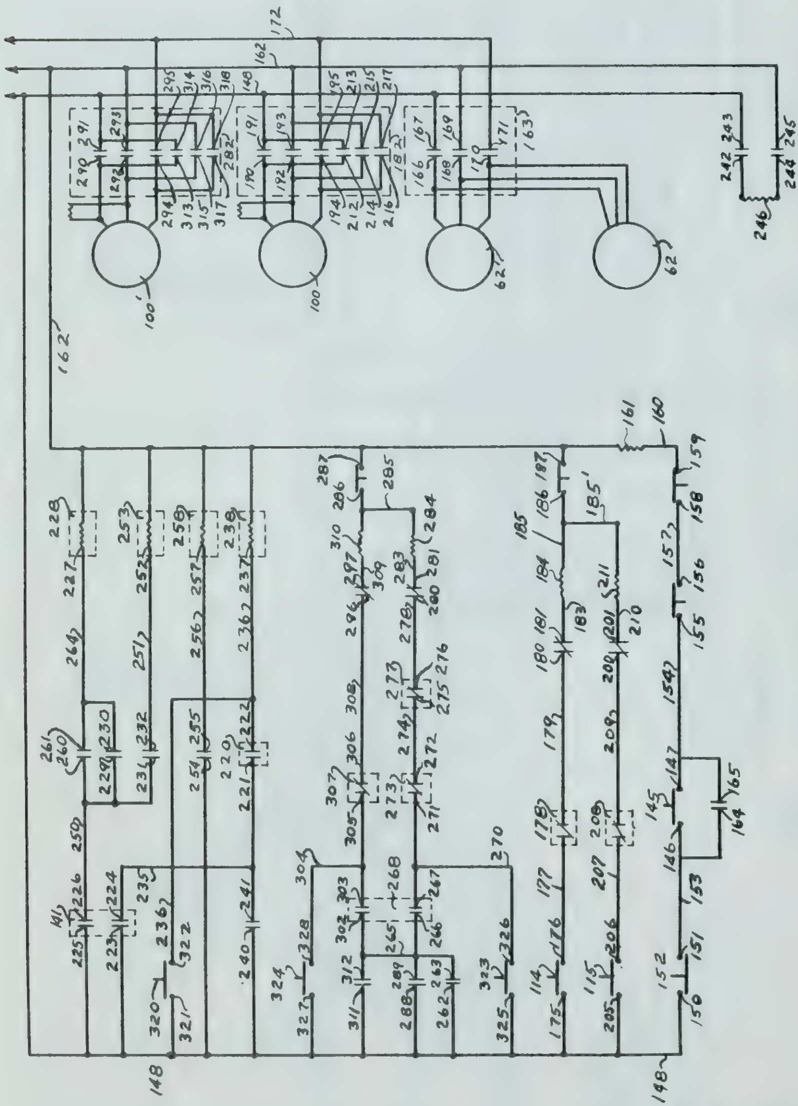

FIG 8

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April 21, 1959 C. E. PARKER Re. 24,638

APPARATUS FOR HANDLING VENEER

Original Filed Aug. 4, 1948 7 Sheets-Sheet 7

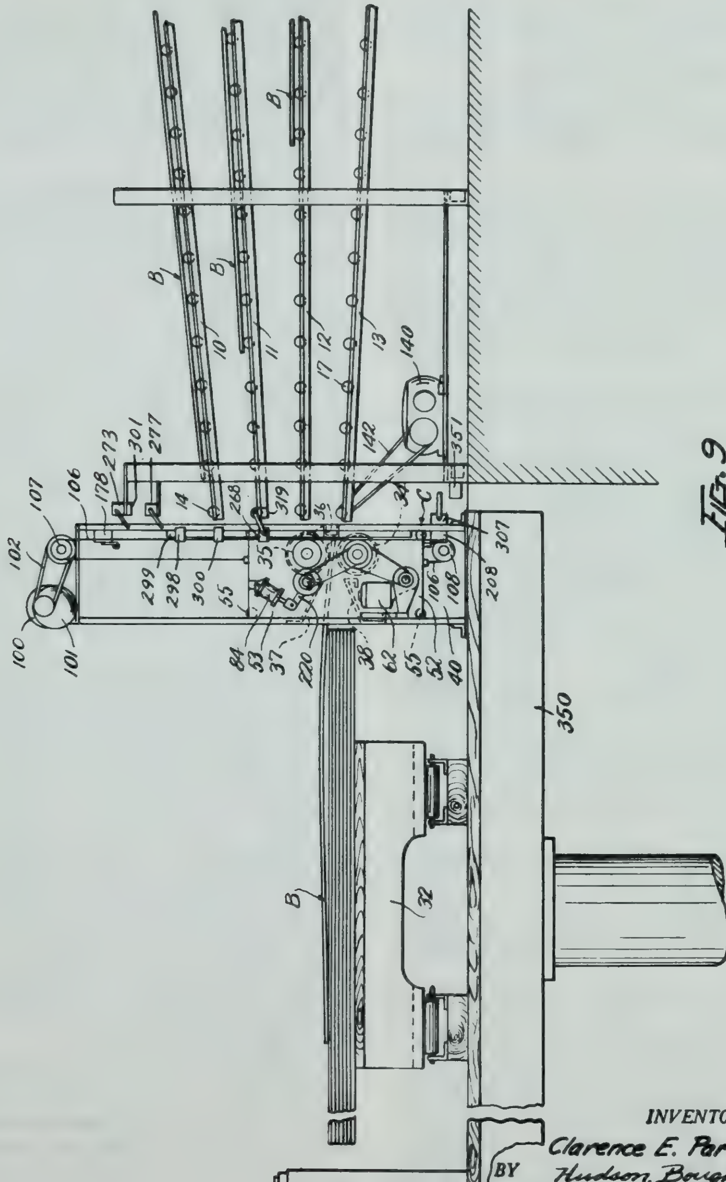

FIG. 9

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United States Patent Office

Re. 24,638
Reissued Apr. 21, 1959

24,638

APPARATUS FOR HANDLING VENEER

Clarence E. Parker, Painesville, Ohio, assignor to The Coe Manufacturing Company, Painesville, Ohio, a corporation of Ohio

Original No. 2,649,182, dated August 18, 1953, Serial No. 42,373, August 4, 1948. Application for reissue October 23, 1958, Serial No. 775,668

25 Claims. (Cl. 198—21)

Matter enclosed in heavy brackets [ ] appears in the original patent but forms no part of this reissue specification; matter printed in italics indicates the additions made by reissue.

The present invention relates to material handling apparatus of the feeder type and, more particularly, to apparatus for feeding veneer to a multiple deck conveyor type veneer dryer from a stack of veneer.

The principal object of the invention is the provision of a simple, inexpensive and reliable apparatus for feeding veneer from a stack of veneer to a multipledeck conveyor type veneer dryer with minimum effort on the part of an operator.

A more specific object of the invention is the provision of a novel and improved apparatus for feeding veneer from a stack of veneer to a multiple deck conveyor type veneer dryer in predetermined relation upon the top piece of a stack of veneer being pushed forwardly of the stack proper a small amount by an operator.

The invention resides in certain constructions and combinations and arrangements of parts and further objects and advantages will be apparent to those skilled in the art to which it relates from the following description of the preferred embodiment described with reference to the accompanying drawings forming a part of this specification in which similar reference characters designate corresponding parts, and in which—

Fig. 1 is a side elevational view of apparatus embodying the present invention for feeding veneer to a conveyor type veneer dryer;

Fig. 2 is a plan view of the apparatus shown in Fig. 1.

Fig. 3 is an enlarged, side elevational view of the feeder mechanism proper shown in Figs. 1 and 2;

Fig. 4 is a fragmentary, enlarged plan view of the mechanism shown in Fig. 2;

Fig. 5 is a sectional view, with portions in elevation, approximately on the line **5—5** of Fig. 3;

Fig. 6 is a sectional view, with portions in elevation, approximately on the line **6—6** of Fig. 3;

Fig. 7 is a fragmentary, elevational view, with portions broken away, looking at the right-hand end of the apparatus shown in Fig. 3;

Fig. 8 is a wiring diagram of the electrical circuits of the apparatus; and

Fig. 9 is a side elevational view showing a different embodiment of the invention.

Referring to Figs. 1 to 8 of the drawings which show the preferred embodiment, the reference character A designates the in-feed end of a four-deck, conveyor type, veneer dryer of commercial construction. The dryer A is not herein shown and described in detail because dryers of the type referred to are well known in the art and the dryer per se forms no part of the present invention. As shown, the dryer comprises four decks **10, 11, 12, 13** of infeed rollers **14, 15, 16, 17**, respectively. The rollers of the respective decks are all driven at a predetermined uniform speed by suitable means, such as, a sprocket chain, and operate to move sheets of veneer, indicated by the reference character B, to pairs of top rollers **20, 21, 22**

the right-hand ends of the decks **10, 11, 12, 13**, respectively, to feed the veneer to the dryer proper. As shown, the pairs of top rollers **20, 21, 22, 23** are carried by arms **24, 25, 26, 27** pivoted at their right-hand ends on transversely extending shafts located above the plane of the decks proper. Gravity holds the top rollers in engagement with the top sides of the sheets of veneer. The rollers of the various decks are driven, as shown, from an electric motor **30** connected thereto by suitable sprocket chains, designated generally by the reference character **31**, and the ends of the decks toward the feeding mechanism proper, hereinafter more specifically described, converge toward each other; however, this is not essential to the present invention and the decks may be otherwise arranged.

The usual practice is to bring the veneer to the dryer on trucks and have workmen remove the veneer from the trucks and feed it into the various decks of the dryer by hand. The present invention does not contemplate any change in the conventional manner of bringing the veneer to the dryer and, as shown, the veneer B is brought to the infeed end of the dryer A, or, more specifically, to the infeed end of the feeding mechanism stacked upon a truck **32** of conventional construction. The operator either standing upon the floor or upon a raised platform **33** pushes the top piece of veneer on the stack between the rubber covered pinch rolls **34, 35** of the feed end unit C of the feeding mechanism until it strikes a stop **36**. The pinch rolls **34, 35** are movable vertically, as will be hereinafter described, so that the pinch rolls can be maintained in substantial alignment with the top of the stack of veneer upon the truck, thereby facilitating the feeding of the top piece of veneer between the pinch rolls. Guide members **37, 38** extending transversely across the feed end unit in front of the pinch rolls **34, 35** provide means for guiding the veneer into the feed end unit even though the pinch rolls are not exactly aligned with the top of the stack of veneer.

The feeding mechanism comprises the feed end unit C, a floating conveyor *or guide* table D, and a discharge end unit E. The feed end unit C comprises a frame and a vertically movable assembly. The frame includes right and left-hand vertical columns **40, 41**, each composed of four channel irons **42, 43, 44, 45** arranged as clearly shown in Fig. 5. In addition to the channel irons referred to, the frame comprises transversely extending angle members **46, 47** connected to the top of the channel members and by right and left-hand top plates **50, 51** to each other. The vertically movable assembly of the feed end unit C includes vertically movable end plates **52** housed within the columns **40, 41** and having suitable tubular members **54** welded thereto for supporting rollers **55**, one located at each of the four corners of the frames. The rollers **55** engage within suitable tracks **56** at opposite sides of the columns and guide the movable plates **52** during their vertical movement. The tracks or guides **56** are carried by the inner channel irons **42, 44**.

Opposite plates **52** of the vertically movable assembly of the feed end unit C are provided with suitable bearings **60** welded thereto for supporting the shaft-like ends **61** of the bottom roll **34**. The right-hand end of the shaft **61** extends beyond the bearing **60** and is adapted to be driven from an electric motor **62** mounted on a plate **63** welded to the right-hand plate **52** of the vertically movable assembly and operatively connected to the shaft **61** through a gear reduction **64** and a sprocket chain drive, designated generally by the reference character **65**.

The upper roll **35** of the feed end unit C is similar to the lower roll **34** and includes shaft-like extensions **66** projecting from opposite ends, which shaft-like extensions project through elongated slots **67** in the plates

fixedly connected to the free ends of levers **71** pivoted about stud shafts **72** connected to the plates **52** by sleeve members **73** welded to the plates **52**. The right-hand end of the roll **35** is adapted to be driven by a pair of gears **74, 75**, the former of which is keyed to the right-hand end of the shaft **66** and the latter to the hub of a sprocket wheel **76** rotatably supported on the projecting end of the shaft **72**. The sprocket wheel **76** is adapted to be driven from the shaft **61** by a sprocket chain **77** operatively connected to the sprocket wheel **76** and to a sprocket wheel **78** keyed to the shaft **61**. An idler sprocket wheel **80** is supported on an eccentric **81** and held assembled thereon by a nut **82**. The eccentric **81** is adjustably carried by a pin **83** welded to the adjacent plate **52** and provides means for adjusting the tension of the sprocket chain **77**. The construction just described is such that the two pinch rolls **34** and **35** are rotated at uniform speed by the motor **62**.

The weight of the upper roll **35** tends to keep it in engagement with the lower roll **34** but the upper roll **35** is normally maintained in spaced relation to the lower roll by fluid pressure operated motors **84**, one at either side of the in-feed unit C, the cylinder assemblies of which are pivotally connected to brackets **85** fixed to the plates **52** and the piston assemblies of which are pivotally connected to arms **86** formed integral with the arms or levers **71** which carry the bearings **70** for the upper roll **35**. The control for supply of pressure fluid to the motors **84** will be hereinafter specifically referred to and is such that the motors **84** can be operated to move the upper roll **35** toward and from the lower roll **34** and during the operation of the machine this is automatically effected periodically to feed a piece of veneer, the end of which has been pushed into the opening between the pinch rolls **34, 35** by the operator.

A suitable stop in the form of a transversely extending channel member **36** normally positioned in the path of veneer being pushed between the pinch rolls **34, 35**, limits the forward movement of the veneer as it is pushed forward by the operator. The stop **36** is fixedly connected to the right-hand end of levers **87** pivotally connected intermediate their ends to the plates **52** by pivots **88**. The oppositely extending, free ends of the arms **87** project underneath antifriction bearings **90** on the shaft-like part **66** of the upper roll **35** and when the upper roll is lowered, the engagement between the bearing members **90** and the ends of the levers **87** will cause the levers **87** to be pivoted about their pivots **88** and the stop or channel member **36** raised out of the path of the veneer.

The vertically movable assembly of the feed end unit C and the operating mechanism forming a part thereof or connected thereto, including the pinch rolls **34, 35** and the feed end of the floating conveyor table D, are adapted to be moved vertically so that the pinch rolls will be aligned or approximately aligned with the top of the stack of veneer upon the truck **32** by an infeed end unit, reversible electric hoist motor **100** including a solenoid release brake and connected by a gear reduction unit **101** and a sprocket chain drive **102** to a transversely extending shaft **103** extending across the top of the frame of the feed end unit C and rotatably supported in a plurality of bearings **104, 105**. The shaft **103** is connected to the vertically movable plates **52** by a sprocket chain **106**, opposite ends of which are connected to the plates **52** and which sprocket chains encircle upper and lower sprocket wheels **107, 108**. The upper sprocket wheels **107** are keyed to the shaft **103** and the lower sprocket wheels **108** are rotatably connected to the side columns of the feed end unit C adjacent to the floor. The weight of the vertically movable assembly is counterbalanced by a weight **110** slidably supported between the two outside channel members of the left-hand column of the frame of the end of the shaft **103** by a cable **111** connected thereto and, after passing over a sheave **112**, rotatably supported at the top of the left-hand column of the frame to a drum **113** keyed to the left-hand end of the shaft **103**. The hoist motor **100** may be operated in opposite directions to raise and lower the vertically movable assembly and align the pinch rolls **34, 35** with the top of the stack of veneer on the truck **32** by the operator through suitable control means, such as, foot-operated switches **114, 115** on the platform **33**, the former of which causes the motor **100** to operate in one direction when depressed and the latter in the opposite direction.

The floating conveyor table D comprises a plurality of belts **120** encircling rolls **121, 122** at opposite ends of the table. The roll **121** adjacent to the in-feed unit C is rotatably supported to the lower end of levers **123**, one located at each end of the roll, by shaft-like extensions **124** on the roll proper. The upper ends of the levers **123** are pivotally connected to projections **125** on opposite plates **52** of the vertically movable assembly of the feed end unit C. The lower or exit end roll **122** forms a part of the discharge end unit E which is similar in construction to the feed end unit C and is not herein shown and described in detail; however, the corresponding parts, with the exception of the roll **122**, are designated by the same reference characters with prime marks added. The roll **122** comprises shaft-like extensions on opposite ends of the roll proper, which extensions are rotatably supported in suitable bearings welded to the plates **52′** of the vertically movable assembly of the discharge end unit E. The roll **122** occupies the same position in the discharge end unit E that the roll **34** occupies in the feed end unit C but is slightly different in construction from the roll **34** because it carries the belts **120** whereas the roll **34** directly engages the veneer. The belts **120** are maintained in predetermined spaced relation to each other in the rolls **121, 122** by bands **126** of belting encircling the rolls and fixed thereto in some suitable manner.

The belts **120** are supported intermediate the rolls **121, 122** by transversely extending beams **130, 131** provided with top plates **132, 133** upon which the upper reaches of the belts **120** rest. Opposite ends of the beams **130, 131** are supported by side assemblies **134** comprising tubular members **135** to which the transversely extending beams **130, 131** are directly connected and end members **136, 137**. The end members **136** are pivotally connected to the shaft-like extensions **124** of the roll **121** and are fixedly secured to the tubular members **135** as by being welded thereto. The lower end members **137** are pivotally connected to the shaft-like extensions of the roll **122** and have elongated, cylindrical ends **138** which are slidably supported within the lower ends of the tubular members **135**, which construction permits the length of the side assemblies **134** and the table to vary as the vertically movable assemblies of the end units C and E are raised and lowered. This together with the fact that the upper end of the conveyor D is pivotally connected to the links **123** which links are in turn pivotally connected to the extensions **125** on the side plates **52** of the vertically movable assembly of the feed end unit C, allows the conveyor to function properly for any position of the apparatus.

With the exception of the fact that the upper roll **35′** of the pinch rolls of the discharge end unit E continuously rides upon the belts **120**, the discharge end unit E is similar in construction and operation to the upper roll **35** of the pinch rolls of the feed end unit C. In addition to being supported in a manner similar to the pinch rolls **34, 35** of the feed end unit C, the rolls **121, 35′** of the discharge end unit E are driven in a similar manner from an electric motor **62′** corresponding to the motor **62** of the feed end unit C. The motor **62′** drives the belts **120** through the roll **121** and the construction is such that a sheet of veneer fed to the floating conveyor table D by

the belts 120 and discharged by the pinch rolls 122, 35' upon one of the decks 10, 11, 12, or 13 of the in-feed end of the veneer dryer A.

The vertically movable assembly of the discharge end unit E is counterbalanced in a manner similar to that in which the vertically movable assembly of the feed end unit C is counterbalanced and is adapted to be moved vertically by a discharge end unit, electrical hoist motor 100' corresponding to the hoist motor 100 and connected to the rolls of the vertically movable assembly in a similar manner to that in which the hoist motor 100 is connected to the corresponding assembly of the feed end unit C. The control for the motor 100', however, is different from the control for the motor 100. The control for the motor 100' is such that the vertically movable assembly of the discharge end unit E is automatically moved to sequentially discharge a sheet of veneer B from the floating table D onto the decks 10, 11, 12, 13, successively and to continuously repeat the cycle so long as the mechanism continues in operation. The movement of the vertical assembly of the discharge end unit E and the closing and opening of the pinch rolls 34, 35 are synchronized or timed with reference to the speed of movement of the decks of the dryer A by a synchronizing unit 140 comprising a cam-operated switch 141. The unit 140 is connected by a sprocket chain drive 142 to the front roller 17 of the lower deck 13 and since the conveyor rollers of all of the decks are driven at the same speed from the motor 30, the switch 141 is rotated in timed relation to the speed of the conveyor. The unit 140 preferably contains means for adjusting the time interval to provide for different length sheets, etc.

Referring to the wiring diagram, the apparatus is placed in operation by depressing the start push button switch 145 to close the normally open contacts 146, 147 thereof and establish a circuit from the power line 148 through the normally closed contacts 150, 151 of the stop push button switch 152, wire 153, the now closed normally open contacts 146, 147 of start push button switch 145, wire 154, normally closed overload contacts 155, 156, wire 157, normally closed overload contacts 158, 159, wire 160, and operating solenoid 161 to line 162. The overload contacts 155, 156, and 158, 159, the operating solenoid 161 and the wires 157, 160 are a part of a motor controller 163 for the motors 62, 62' which drive the pinch rolls and the table of the feeding apparatus. Energization of the operating solenoid 161 of the motor controller 163 closes the normally open contacts 164, 165 also forming a part of the motor controller which establishes a holding circuit around the start push button switch 145 which may now be released. Energization of the operating solenoid 161 also closes the normally open contacts 166, and 167, 168 and 169, 170 and 171 connecting the motors 62, 62' to the power lines 148, 162, 172 starting the motors 62, 62' which, in turn, drive the pinch rolls 34, 35 and the pinch rolls 122, 35' and the belts 120, respectively. The motors continue to operate until stopped by depressing the stop push button switch 152 to open its normally closed contacts and break the holding circuit for the solenoid 161. The start and stop push button switches 145, 152 may be positioned at any convenient location about the machine.

The vertically movable assembly of the feed end unit C may be manually raised or lowered by closing the normally open push button switches 114, 115 previously referred to. Closing normally open push button switch 114 closes its normally open contacts 175, 176 establishing a circuit from the line 148 through the now closed contacts 175, 176, wire 177, overtravel safety limit switch 178, wire 179, normally closed contacts 180, 181 of motor controller 182, wire 183, operating solenoid 184 of motor controller 182, wire 185, and normally closed overload contacts 186, 187 of motor controller 182. Energization of the operating solenoid 184 of motor con-

191, 192 and 193, 194 and 195, connecting the motor 100 to the power lines 148, 162, 172 in such a manner that the motor rotates in a direction to raise the vertically movable assembly of the fed end unit C. Simultaneously with the closing of the contacts 190 to 195, normally closed contacts 200, 201 are opened, which eliminates any possibility of the motor being accidentally connected to the power lines for rotation in an opposite direction by depressing the lowering push button switch 115. The motor 100 continues to rotate in a direction to raise the pinch rolls 34, 35, etc., as long as switch 114 is held closed or until the safety limit switch 178 opens.

The motor 100 is operated in the opposite direction to lower the vertically movable assembly of the feed end unit C by closing the switch 115 to close the normally open contacts 205, 206 thereof, thereby establishing a circuit from the line 148 through the switch 115, wire 207, down safety limit switch 208, wire 209, normally closed contacts 200, 20', of motor controller 182, wire 210, operating solenoid 211 of motor controller 182, wire 185', and overload contacts 186, 187 to line 162. Energization of the operating solenoid 211 closes the normally open contacts 212 and 213, 214 and 215, and 216 and 217 of motor controller 182, thereby connecting the hoist motor 100 to the power lines 148, 162 and 172 for rotation in the opposite direction; that is, in a direction to lower the movable assembly of the in-feed unit C. The motor continues to operate as long as the switch 115 is held closed or until the safety limit switch 208 opens.

With the motor 30 in operation and the conveyor mechanism or rollers of the decks of the dryer A in operation, the switch 141 forming a part of synchronizing unit 140 will be periodically closed. Assuming that the sheets of veneer being fed to the dryer are eight feet long, the switch 141 is preferably closed, once for each three and one-third feet of travel of the veneer or stock in the dryer. As the operator pushes a sheet of veneer between the pinch rolls 34, 35 and into engagement with the stop 36, the veneer actuates the limit switch 220 forming a part of the vertically movable assembly of the feed end unit C to close its normally open contacts 221, 222; however, nothing further happens until the switch 141 is operated to close normally open contacts 223, 224 thereof and open its normally closed contacts 225, 226. The opening of the normally closed contacts 225, 226 break a holding circuit for an operating solenoid 227 of a relay 228 having normally open contarts 229, 230 and normally closed contacts 231, 232, hereinafter more specifically referred to. The momentary closing of the normally open contacts 223, 224 of switch 141 establishes a circuit from the line 148 through the contacts 223, 224, wire 235, now closed contacts 221, 222 of limit switch 220, wire 236, and operating solenoid 237 of relay 238 to line 162.

Energization of operating solenoid 237 of relay 238 closes the normally open contacts 240 and 241, 242 and 243, 244 and 245 thereof. The closing of the normally open contacts 240, 241 of relay 238 establishes a holding circuit for the relay from the line 148 to the wire 235. The closing of the normally open contacts 242, 243 and 244, 245 of relay 238 connects the operating solenoid 246 of the solenoid valve which controls the flow of pressure fluid to and from the motors 84 to cause the valve to release the pressure fluid in the motor and allow the top roll 35 to drop into engagement with the veneer therebetween and the bottom roll 34. Simultaneously with the movement of the upper roll 35 into engagement with the veneer therethrough, the stop 36 is raised allowing the sheet of veneer to be fed by the pinch rolls onto the belts 120 of the floating conveyor table D.

The re-closing of contacts 225, 226 of switch 141 after being momentarily opened, establishes a circuit from the line 148 through the now closed contacts 225, 226 of switch 141, wire 250, normally closed contacts 231, 232

relay 253 to line 162. Energization of the operating solenoid 252 of relay 253 closes its normally open contacts 254, 255 establishing a circuit from the line 148 through the contacts 254, 255, wire 256, and operating solenoid 257 of relay 258 to line 162. Energization of the operating solenoid 257 of relay 258 closes its normally open contacts 260 and 261, 262 and 263. The closing of the normally open contacts 260, 261 of relay 258 establishes a circuit from the line 148 through the now closed contacts 225, 226 of switch 141, wire 250, now closed contacts 260, 261 of relay 258, wire 264, and operating solenoid 227 of relay 228 to line 162. The energization of the operating solenoid 227 of relay 228 closes the normally open contacts 229, 230 thereof and opens its normally closed contacts 231, 232. The closing of contacts 229, 230 establishes a holding circuit around the contacts 260, 261 of relay 258 from the wire 250 to the wire 264 and the opening of the normally closed contacts 231, 232 of relay 228 deenergizes the operating solenoid 252 of relay 253 allowing its normally open contacts 254, 255 to open which, in turn, deenergizes the operating solenoid 257 of relay 258.

The closing of normally open contacts 262, 263 of relay 258 establishes a circuit from the line 148 through the wire 265, normally closed contacts 266, 267 of selecting switch 268, wire 270, normally closed contacts 271, 272 of up travel, safety limit switch 273, wire 274, normally closed contacts 275, 276 of limit switch 277 connected to the frame of the discharge end unit E, wire 278, contacts 280, 281 of motor controller 282, wire 283, operating solenoid 284 of motor controller 282, wire 285, and overload contacts 286, 287 of motor controller 282 to line 162.

Energization of the operating solenoid 284 of motor controller 282 closes the normally open contacts 288 and 289, 290 and 291, 292 and 293, 294 and 295 and opens the normally closed contacts 296 and 297. The closing of the normally open contacts 288, 289 of motor controller 282 establishes a holding circuit for the operating solenoid 284 thereof around the contacts 262, 263, of relay 258 from the line 148 to the wire 265. The closing of the normally open contacts 290 and 291, 292 and 293, 294 and 295 of motor controller 282 connects the discharge end unit hoist motor 100′ to the power lines 148, 162, 172 so that it operates in a direction to raise the vertically movable assembly of the discharge end unit E. The motor continues to operate and the unit to raise until limit switch 277 which is connected to the frame of the discharge end unit E is opened by an adjustable stop 298 carried by a rod 299 connected to the right-hand plate 52′ of the discharge end unit E, there being one such stop for each of the intermediate decks of the dryer. The opening of the normally closed contacts 275, 276 of limit switch 277 breaks the circuit for the operating solenoid 284 of the motor controller 282 causing the motor to stop and the solenoid release brake associated therewith to be applied. The discharge end unit is now in position to discharge the sheet of veneer being fed to the table D onto the deck with which the pinch rolls 122, 35′ thereof are now aligned; that is, deck 12 which is the second deck from the bottom.

When the sheet of veneer being fed passes through the feed or pinch rolls 34, 35 of the feed end unit C, the switch 220 which has held closed by the veneer operates to open its normally open contacts 221, 222, thus breaking the circuit for the operating solenoid 237 of relay 238 which, in turn, deenergizes the operating solenoid 246 of the solenoid valve, allowing pressure fluid to be again applied to the motors 84 to raise the top roll 35 and lower the stop 36. The sheet of veneer is fed onto the deck of the dryer at a considerably higher speed than that at which it travels through the dryer because the feeding mechanism feeds four decks successively decks, the cycle of operations just described is repeated by the switch 141 being again operated instantaneously by the synchronizing mechanism. As the verically movable assembly of the discharge end unit E reaches the third deck from the bottom; that is, deck 11, it is stopped by an adjustable stop 300 similar to the stop 298 previously referred to. When the vertically movable assembly reaches the top deck with the pinch rolls 122, 35′ in alignment with the top deck 10 of the dryer A, a cam 301 on the frame of the discharge end unit E operates the selecting switch 268 to open the previously closed contacts 266, 267 thereof and close contacts 302, 303 of the selecting switch 268. Upon the next operation of the sequence switch 141 and the resultant closing of the normally open contacts 262, 263 of relay 258, as previously described, a circuit is established which causes the discharge unit hoist motor 100′ to operate in a direction to lower the vertically movable assembly to its bottom position; that is, with the pinch rolls 122, 35′ in alignment with the lower deck 13 of the dryer A. With the selecting switch 268 in the position just referred to, the closing of the normally open contacts 262, 263 of relay 258 establishes a circuit from the line 148 through the contacts 262, 263, wire 265, now closed contacts 302, 303 of selecting switch 268, wire 304, normally closed contacts 305, 306 of down travel safety limit switch 307, wire 308, normally closed contacts 296, 297 of motor controller 282, wire 309, operating solenoid 310 of motor controller 282, wire 285, and overload contacts 286, 287 to line 262, thereby energizing the solenoid 310 and closing the normally open contacts 311 and 312, 313 and 314 , 315 and 316, 317 and 318 of motor controller 282. The closing of normally open contacts 311, 312 establishes a holding circuit for the operating solenoid 310 around the contacts 262, 263 of relay 258.

The closing of the normally open contacts 313 and 314, 315 and 316, 317 and 318 connects the discharge unit hoist motor 100′ to the power lines 148, 162, 172 in such a manner that the motor rotates in a direction to lower the vertically movable assembly including the pinch rolls 122, 35′. The motor continues to operate and the assembly to descend until the assembly reaches the lower position, at which time the selecting switch 268 is again operated by a cam 319 on the frame of the discharge end unit to open contacts 302, 303 thereof to deenergize the operating solenoid 310 and stop the motor. Operation of the selecting switch 268 to open the contacts 302, 303 thereof causes contacts 266, 267 of the switch to subsequently close and reestablish the circuit so that the discharge unit hoist motor 100′ will be operated in the reverse direction; that is, in the direction to raise the vertically movable assembly of the hoist unit E upon the next closing of the normally open contacts 262, 263 of relay 258 upon the subsequent actuation of the switch 141. The cycle of operations continues with the feeding mechanism delivering veneer to the decks of the dryer in sequence as long as the machine is continued in operation and veneer is introduced between the pinch rolls 34, 35 of the feed end unit C.

Provision is made for manually controlling the dropping of the upper pinch roll 35 in the form of a push button switch 320 comprising normally open contacts 321, 322, the closing of which establishes a circuit from the line 148 through the contacts 321, 322, wire 236, and operating solenoid 237 of relay 238 to the line 162. The discharge unit hoist motor 100′ can be operated in either direction by the operation through the medium of push button switches 323, 324. When the push button switch 323 is operated to close its normally open contacts 325, 326, the operating solenoid 284 of motor controller 282 is energized and causes the motor to operate in a direction to raise the vertically movable assembly of the discharge end unit E. When the push button switch 324 is operated to close its normally open contacts

ergized and causes the motor to operate in a direction to lower the vertically movable assembly of the discharge end unit E.

While the invention has been herein illustrated and described as though a single row of veneer was being processed at one time, the usual practice is to process a plurality of **[**rolls**]** *rows* simultaneously, the number depending upon the width of the veneer sheets being treated and the width of the dryer, etc. It is also to be understood that the vertically movable assembly of the feed end unit C may be positioned at some convenient height above the floor and the veneer fed thereto in any suitable manner, either manually or automatically. Regardless of how the sheets of veneer are brought to and inserted between the pinch rolls **34, 35** of the feed end unit, the feed mechanism of the present invention will automatically feed veneer to a multiple deck dryer in predetermined sequence and in properly spaced relation with respect to the other veneer on the various decks.

In the alternative construction shown in Fig. 9, the floating table D and the discharge end unit E are omitted and the feed end unit C and the portion of track which supports the truck or trucks **32'** in position for feeding the veneer to the feed end unit C are both mounted on a vertically movable platform or elevator **350**. The elevator shown is of the hydraulic type operated by an electric motor driven pump and is moved vertically to align the pinch rolls **34, 35** of the feed end unit C with the particular deck **10, 11, 12,** or **13** which it is desired to feed either manually or automatically in a manner similar to that in which the vertically movable assembly of the discharge end unit is aligned with the various decks previously described. The motor **62'** is omitted, the motor, not shown, which operates the elevator **350** is substituted for the motor **100'**.

Since the vertical movement of the elevator **350** and the entire unit C will correspond to the movement of the vertically movable assembly comprising end plates **52'** of the discharge end unit E in the first described embodiment, the control switch **268** is attached to the assembly comprising the end plates **52**, and the spaced stops **301, 319** for actuating the switch are appropriately attached to the frame of the conveyor decks **10** to **13**, and operate the switch in manner described previously, when the elevator moves vertically. Likewise, the switches **273** and **277** are supported on the conveyor deck frame and are actuated by the stops **298, 300** attached to the rod **299** which is in turn attached to one of the end plates **52** of the pinch roll assembly and the stops cooperating with the switches control the position of the elevator to successively align the pinch rolls **34, 35** with the respective conveyor decks, and limits the upward elevation of the assembly. The safety downward travel limit switch **307** is attached to the lower part of the frame of the end unit C and cooperates with a stop **351** to discontinue operation of the pump motor similar to the manner in which it operates to stop elevator motor **100'** in the first described embodiment.

In the form of the invention shown in Figs. 1 to 8, the vertically movable assembly of the discharge end unit E is moved vertically as the veneer sheets feed between the pinch rolls **34, 35**. In the embodiment shown in Fig. 9, however, the veneer is fed directly from the pinch rolls to the conveyor decks and therefore the vertical movement of the elevator to align the pinch rolls with the next above conveyor deck must not occur until after the veneer has moved from the pinch rolls and prior to the feeding of a succeeding sheet therebetween. This action is accomplished by installing a normally closed switch in the wire **250** between the contacts **225, 226** of time switch **141** and contacts **231, 232** of the electromagnetic relay **228**, which switch is opened by the solenoid **237** when it is energized by closure of the contacts **221, 222** of the veneer operated switch **220**.

commodate the pinch rolls to the top position of the stack of veneer to be fed therethrough by manual operation of the push buttons **114, 115** as described hereinbefore, and at the same time, the vertical position of the elevator should be correspondingly adjusted to maintain the pinch rolls within their range of movement into alignment with the respective conveyor decks **10–13** by operation of the manual control push buttons **323, 324** as described hereinbefore.

From the foregoing it will be apparent that the objects heretofore enumerated and others have been accomplished and that there has been provided a novel and improved apparatus for feeding veneer to a multiple deck dryer, or, in fact any similar sheet material to a multiple deck machine in predetermined sequence and in predetermined spaced relation. While the preferred embodiment of the invention has been described with considerable detail, the invention is not limited to the particular construction shown and it is the intention to cover hereby all adapations, modifications and uses thereof which come within the practice of those skilled in the art to which the invention relates and the scope of the appended claims.

Having thus described my invention, I claim:

1. In equipment for loading material in sheet form into a multiple deck conveyor type machine having power driven conveyor decks, the combination of a feed end unit to feed sheet material to said deck conveyors, said unit comprising a frame and a pair of pinch rolls, means for driving said pinch rolls, means for producing relative movement of said pinch rolls toward and from each other, and means for automatically controlling the movement of said pinch rolls toward each other including a control device actuated by a sheet moving between said pinch rolls and a device operated at intervals proportional to the speed of the conveyor decks and cooperating with the first mentioned control device to initiate movement of said pinch rolls toward each other.

2. In equipment for loading material in sheet form into a multiple deck conveyor type machine, the combination of a feed end unit comprising a frame, a vertically movable assembly carried by said frame, manually controlled power means for moving said assembly vertically, a pair of pinch rolls carried by said assembly, means for producing relative movement of said pinch rolls toward and from each other, and means for automatically controlling the movement of said pinch rolls toward each other comprising a device actuated by a sheet moved between said pinch rolls and an intermittently operated device operated at predetermined intervals and cooperating with the first mentioned control device to initiate movement of said pinch rolls toward each other.

3. In equipment for loading material in sheet form into a multiple deck conveyor type machine, the combination of a feed end unit comprising a frame and a pair of pinch rolls, means for driving said pinch rolls, means for producing relative movement of said pinch rolls toward and from each other, a conveyor type table having its feed end adjacent to said pinch rolls, a discharge end unit comprising a frame and a vertically movable assembly having the opposite end of said conveyor type table connected thereto for movement therewith, and means for moving said vertically movable assembly of said discharge end unit in timed relation to the relative movement of said pinch rolls toward and from each other.

4. In equipment for loading material in sheet form into a multiple deck conveyor type machine, the combination of a feed end unit comprising a frame and a pair of pinch rolls, means for driving said pinch rolls, means for producing relative movement of said pinch rolls toward and from each other, a conveyor type table having its feed end adjacent to said pinch rolls, a discharge end unit comprising a frame and a vertically movable assembly including a pair of pinch rolls, means for pivotally connecting the discharge end of said conveyor type table

with, and means for moving said vertically movable assembly of said discharge end unit in timed relation to the relative movement of said pinch rolls toward and from each other.

5. In equipment for feeding material in sheet form into a multiple deck conveyor type machine, the combination of a feed end unit comprising a frame and a vertically movable assembly including a pair of pinch rolls, means for raising and lowering said assembly, means for driving said pinch rolls, means for producing relative movement of said pinch rolls toward and from each other, a conveyor type table connected at one end to said vertically movable assembly for movement therewith, a discharge end unit comprising a frame and a vertically movable assembly having the opposite end of said conveyor type table connected thereto for movement therewith, and means for moving said vertically movable assembly of said discharge end unit in timed relation to the relative movement of said pinch rolls toward and from each other.

6. In equipment for feeding material in sheet form into a multiple deck conveyor type machine, the combination of a feed end unit comprising a frame and a vertically movable assembly including a pair of pinch rolls, means for raising and lowering said assembly, means for driving said pinch rolls, means for producing relative movement of said pinch rolls toward and from each other, a conveyor type table connected at one end to said vertically movable assembly for movement therewith, a discharge end unit comprising a frame and a vertically movable assembly including a pair of pinch rolls, means for pivotally connecting the discharge end of said conveyor type table to said vertically movable assembly for movement therewith, and means for moving said vertically movable assembly of said discharge end unit in timed relation to the relative movement of said pinch rolls toward and from each other.

7. In equipment for feeding material in sheet form into a multiple deck conveyor type machine, the combination of a feed end unit comprising a frame and a vertically movable assembly including a pair of pinch rolls, means for raising and lowering said assembly, means for driving said pinch rolls, means for producing relative movement of said pinch rolls toward and from each other, a conveyor type table connected at one end to said vertically movable assembly for movement therewith, a discharge end unit comprising a frame and a vertically movable assembly having the opposite end of said conveyor type table connected thereto for movement therewith, and means for moving said vertically movable assembly of said discharge end unit in timed relation to the relative movement of said pinch rolls toward and from each other, said last-named means comprising a control mechanism adapted to be operatively connected to the conveyor mechanism of said machine whereby said pinch rolls and said vertically movable assembly of said discharge end unit are moved in timed relation to the speed of the conveyor.

8. In equipment for loading material in sheet form into a multiple deck conveyor type machine, the combination of a feed unit comprising a frame, a vertically movable unit carried by said frame and including a pair of pinch rolls, means for driving said pinch rolls, means for producing relative movement of said pinch rolls toward and from each other, and power means for moving said frame vertically a predetermed distance to move the pinch rolls from a sheet discharge position relative to one of the multiple decks of the machine to a sheet discharge position relative to an adjacent one of the multiple decks in timed relation to the relative movement of said pinch rolls toward and from each other.

9. In equipment for feeding material in sheet form into a multiple deck conveyor type machine, the combination of a feed unit comprising a frame, elevator means for

ried by said frame and including a pair of pinch rolls, means for raising and lowering said assembly, means for driving said pinch rolls, means for producing relative movement of said pinch rolls toward and from each other, and means for actuating said elevator means to move said frame vertically in timed relation to the relative movement of said pinch rolls toward and from each other.

10. In equipment for loading sheet *veneer* material *from a stack of veneer sheets* into a multiple power driven conveyor deck type machine, a sheet feeding mechanism including power driven elevating means shiftable vertically to direct sheet material into different ones of the multiple conveyor decks of the machine *and pinch roll means for advancing a veneer sheet,* [and] control means to intermittently initiate operation of said elevating means at intervals which are a function of the speed of the conveyor decks, [which] *said* control means [includes] *including* a control device operated in [synchronism] *timed relation* with the power driven conveyor decks, *and means for intermittently operating said pinch roll means in timed relation to the vertical movement of said elevating means.*

11. In equipment for loading sheet *veneer* material into a multiple power driven conveyor deck type machine *from a stack of veneer sheets supported in spaced relation with respect to the machine,* a sheet feeding mechanism including *pinch roll means for advancing a veneer interposed between the stack of veneer sheets and the machine and* power driven elevating means shiftable vertically to direct sheet material into different ones of the multiple [conveyor] decks of the machine, [and] electrical control means to intermittently initiate operation of said elevating means at intervals which are a function of the speed of the conveyor decks, [which] *said* electrical control means [includes] *including* an [electric] *electrical* switch opened and closed in [synchronism] *timed relation* with the power driven conveyor decks, *and means for intermittently operating said pinch roll means in timed relation with said elevating means.*

12. In equipment for loading sheet material into a multiple power driven conveyor deck type machine, a power driven sheet feeding unit operative to move sheets toward the machine, and control means for said sheet feeding unit comprising a control device actuated by a sheet moved into feeding position with respect to said sheet feeding unit and a control device operated in synchronism with the driven conveyor decks of the machine and cooperating with the first mentioned control device at intervals proportional to the speed of the conveyor decks to render said sheet feeding unit operative.

13. In equipment for loading sheet material into a multiple power driven conveyor deck type machine, a power driven pinch roll mechanism operative to move sheets toward the machine, and control means to intermittently render said pinch roll mechanism operative comprising a control device actuated by a sheet moved to feed position relative to said pinch roll, a control device operated in synchronism with the driven conveyor decks of the machine and cooperating with the first mentioned control device at intervals proportional to the speed of the conveyor decks to render said pinch roll mechanism operative.

14. In equipment for loading sheet *veneer* material into a multiple power driven deck conveyor type machine *from a stack of veneer sheets supported in spaced relation with respect to the machine,* the combination of a power operated sheet feeding mechanism *including pinch roll means for advancing a sheet of veneer interposed between the stack of veneer sheets and the machine,* power means for moving said sheet feeding mechanism into *sheet feeding* alignment with the respective conveyor decks, and control means for actuating said power operated sheet feeding mechanism and said power means in [synchronism] *timed relation,* said control means including a device operating in [synchronism] *timed relation* with the

15. In equipment for loading sheet material into a multiple conveyor deck type machine, the combination of a frame, a sheet feeding unit carried by said frame for vertical movement, power actuated means for moving said sheet feeding unit, a second frame spaced from the first mentioned frame and adjacent to the multiple deck conveyor machine, a sheet discharge unit carried by said second frame for vertical movement to discharge sheets onto any of the multiple decks of the conveyor machine, a sheet conveyor structure connected at one end with said sheet feeding unit and at the other end with said sheet discharge unit and operative to transfer sheets from said sheet feeding unit to said sheet discharge unit, and automatically controlled power actuated means to raise and lower said sheet discharge unit.

16. In equipment for loading sheet material into a multiple conveyor deck type machine, the combination of a frame, a sheet feeding unit carried by said frame for vertical movement, power actuated means for moving said sheet feeding unit, a second frame spaced from the first mentioned frame and adjacent to the multiple deck conveyor machine, a sheet discharge unit carried by said second frame for vertical movement to discharge sheets onto any of the multiple decks of the conveyor machine, a telescoping sheet conveyor structure connected at one end with said sheet feeding unit and at the other end with said sheet discharge unit and operative to transfer sheets from said sheet feeding unit to said sheet discharge unit, and automatically controlled power actuated means to raise and lower said sheet discharge unit, said telescoping conveyor structure being shortened as said units approach a common level and lengthening when said units move from a common level.

17. In equipment for loading material in sheet form into a multiple deck power driven conveyor type machine, the combination of vertically movable feed means having an entering end and a discharge end, said feed means including a pair of pinch rolls, means for driving said pinch rolls, power actuated means for vertically moving said entering end of said feed means, power actuated means for producing relative movement of said pinch rolls toward and from each other, and automatically controlled power actuated means for moving said discharge end of said feed means vertically in timed relation to the relative movement of said pinch rolls relative to each other.

18. In equipment for loading sheet veneer material from a stack of veneer sheets into a multiple power driven conveyor deck type machine, means for supporting a stack of veneer sheets in spaced relation with respect to the machine, a sheet feeding mechanism including power driven elevating means shiftable vertically to direct sheet material into different ones of the multiple conveyor decks of the machine and pinch roll means intermediate the stack of veneer sheets and the machine for advancing a veneer sheet, means for producing relative movement between said means for supporting the stack of veneer sheets and said pinch roll means whereby substantial alignment may be maintained between the top of the stack of veneer sheets and said pinch roll means, control means to intermittently initiate operation of said elevating means at intervals which are a function of the speed of the conveyor decks, said control means including a control device operated in timed relation with the power driven conveyor decks, and means for intermittently operating said pinch roll means in timed relation to the vertical movement of said elevating means.

19. In equipment for loading sheet veneer material from a stack of veneer sheets into a multiple power driven conveyor deck type machine, means for supporting a stack of veneer sheets in spaced relation with respect to the machine, a sheet feeding mechanism interposed between the stack of veneer sheets and the machine and having a feed end and a discharge end, said sheet feeding mechanism comprising pinch roll means adjacent to each of said ends and including power driven elevating means for shifting said discharge end vertically to direct sheet material into different ones of the multiple conveyor decks of the machine, means for producing relative movement between said means for supporting the stack of veneer sheets and said feed end of said sheet feeding mechanism whereby substantial alignment may be maintained between the top of the stack of veneer sheets and said pinch roll means at said feed end of said sheet feeding mechanism, control means to intermittently initiate operation of said elevating means at intervals that are a function of the speed of the conveyor decks, and means for actuating said pinch roll means adjacent to said feed end in timed relation to the vertical movement of said discharge end.

20. In equipment for loading sheet veneer material into a multiple power driven deck conveyor type machine, means for supporting a stack of veneer sheets in spaced relation with respect to the machine, a sheet feeding mechanism including pinch roll means for advancing a veneer interposed between the stack of veneer sheets and the machine and power driven elevating means shiftable vertically to direct sheet material into different ones of the multiple decks of the conveyor machine, means for producing relative movement between said means for supporting the stack of veneer sheets and said pinch roll means whereby substantial alignment may be maintained between the top of the stack of veneer sheets and said pinch roll means, electrical control means to intermittently initiate operation of said elevating means at intervals which are a function of the speed of the conveyor decks, said electrical control means including an electrical switch open and closed in timed relation with the power driven conveyor decks, and means for intermittently operating said pinch roll means in timed relation with said elevating means.

21. In equipment for loading sheet veneer material from a stack of veneer sheets into a multiple power driven conveyor deck type machine, means for supporting a stack of veneer sheets in spaced relation with respect to the machine, a sheet feeding mechanism interposed between the stack of veneer sheets and the machine and having a feed end and a discharge end, said sheet feeding mechanism comprising pinch roll means adjacent to each of said ends and including power driven elevating means for shifting said discharge end vertically to direct sheet material into different ones of the multiple conveyor decks of the machine, means for producing relative movement between said means for supporting the stack of veneer sheets and said feed end of said sheet feeding mechanism whereby substantial alignment may be maintained between the top of the stack of veneer sheets and said pinch roll means at said feed end of said sheet feeding mechanism, electrical control means to intermittently initiate operation of said elevating means at intervals that are a function of the speed of the conveyor decks, said electrical control means including an electric switch opened and closed in timed relation with the power operated conveyor decks, and means for actuating said pinch roll means adjacent to said feed end in timed relation to the vertical movement of said discharge end.

22. In equipment for loading sheet veneer material into a multiple power driven deck conveyor type machine, means for supporting a stack of veneer sheets in spaced relation with respect to the machine, the combination of a power operated sheet feeding mechanism including pinch roll means for advancing a sheet of veneer interposed between the stack of veneer sheets and the machine, power means for moving said sheet feeding mechanism into alignment with the respective conveyor decks, means for producing relative movement between said means for supporting the stack of veneer sheets and said pinch roll means whereby substantial alignment may be maintained between the top of the stack of veneer sheets and said

actuating said pinch roll means in timed relation with the movement of said sheet feeding mechanism into alignment with the respective conveyor decks.

23. In equipment for loading sheet veneer material from a stack of veneer sheets into a multiple power driven deck conveyor type machine, means for supporting a stack of veneer sheets in spaced relation with respect to the machine, the combination of a power operated sheet feeding mechanism interposed between the stack of veneer sheets and the machine and having a feed end adjacent to the stack of veneer sheets and a discharge end adjacent to the machine, said sheet feeding mechanism comprising pinch roll means adjacent to each of said ends, power means for moving said discharge end of said sheet feeding mechanism into alignment with the respective conveyor decks, means for producing relative movement between said means for supporting the stack of veneer sheets and said feed end of said sheet feeding mechanism whereby substantial alignment may be maintained between the top of the stack of veneer sheets and said pinch roll means at said feed end of said sheet feeding mechanism, and control means for intermittently actuating said pinch roll means in timed relation with the movement of said discharge end of said sheet feeding mechanism into alignment with the respective conveyor decks.

24. In equipment for loading sheet veneer material from a stack of veneer sheets into a multiple power driven deck conveyor type machine, the combination of a multiple deck driven conveyor section in advance of the machine, means for supporting a stack of veneer sheets in spaced relation with respect to said conveyor section, a power operated sheet feeding mechanism comprising pinch roll means intermittently operable to advance a veneer sheet interposed between the stack of veneer sheets and said conveyor section, power means for selectively producing relative vertical movement between said means for supporting said stack of veneer sheets and said pinch roll means whereby substantial alignment may be maintained between the top of the stack of veneer sheets and said pinch roll means, power means for producing relative vertical movement between said sheet feeding mechanism and said conveyor section in opposite directions to align said sheet feeding mechanism with the respective decks of said conveyor section, and means for operating said pinch roll means in timed relation with the relative movement between said sheet feeding mechanism and the decks of said conveyor section.

25. In equipment for loading veneer sheets into a machine of the type having a plurality of separate power-driven conveyor decks arranged vertically above one another, a sheet-feeding mechanism having a feed end and a discharge end, said sheet-feeding mechanism being aligned in direction of feeding movement with the direction of feeding movement of said conveyor decks and having its discharge end adjacent thereto, power-driven elevating means for shifting the discharge end of said mechanism vertically in intermittent steps into horizontal alignment successively with said conveyor decks, said sheet-feeding mechanism including pinch roll means for advancing a veneer sheet, means intermittently to actuate said elevating means at intervals which are a function of the speed of said conveyor decks including a control device operated in timed relation with said conveyor decks, and means for intermittently operating said pinch roll means during the intervals between successive steps of movement of said elevating means whereby successive veneer sheets presented to said pinch roll means are advanced along said sheet-feeding mechanism onto successive ones of said conveyor decks.

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or the original patent

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March 3, 1959 O. G. JEDDELOH 2,876,009

SHEET LOADING MECHANISM FOR MULTIDECK CONVEYOR

Filed May 5, 1958 4 Sheets-Sheet 2

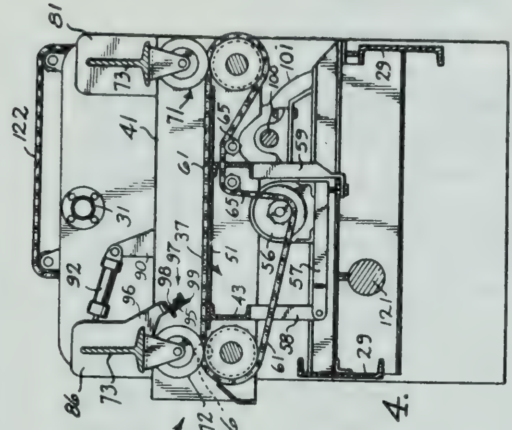

Fig. 4.

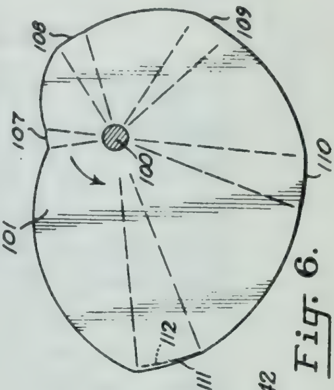

Fig. 6.

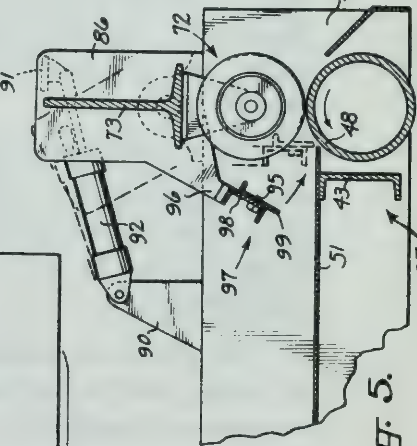

Fig. 5.

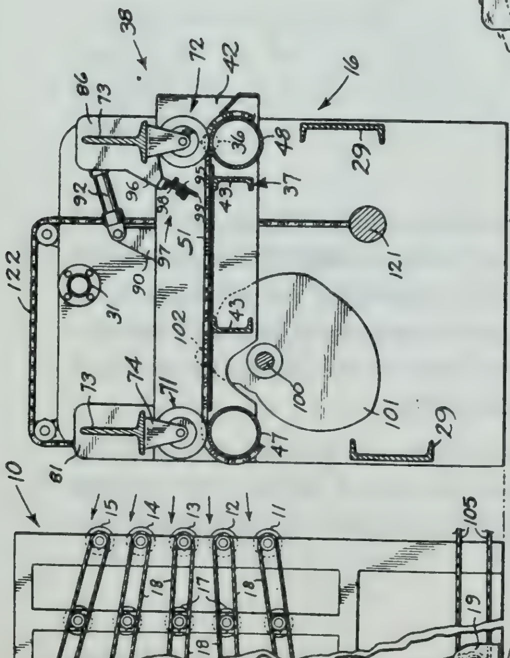

Fig. 3.

INVENTOR.
Otto G. Jeddeloh
BY
Ramsey and Kolisch
Attys.

35 U.S.C. § 251:

"Reissue of defective patents

"Whenever any patent is, through error without any deceptive intention, deemed wholly or partially inoperative or invalid, by reason of a defective specification or drawing, or by reason of the patentee claiming more or less than he had a right to claim in the patent, the Commissioner shall, on the surrender of such patent and the payment of the fee required by law, reissue the patent for the invention disclosed in the original patent, and in accordance with a new and amended application, for the unexpired part of the term of the original patent. No new matter shall be introduced into the application for reissue.

"The Commissioner may issue several reissued patents for distinct and separate parts of the thing patented, upon demand of the applicant, and upon payment of the required fee for a reissue for each of such reissued patents.

"The provisions of this title relating to applications for patent shall be applicable to applications for reissue of a patent, except that application for reissue may be made and sworn to by the assignee of the entire interest if the application does not seek to enlarge the scope of the claims of the original patent.

"No reissued patent shall be granted enlarging the scope of the claims of the original patent unless applied for within two years from the grant of the original patent."

35 U.S.C. § 252:
"Effect of reissue

"The surrender of the original patent shall take effect upon the issue of the reissued patent, and every reissued patent shall have the same effect and operation in law, on the trial of actions for causes thereafter arising, as if the same had been originally granted in such amended form, but in so far as the claims of the original and reissued patents are identical, such surrender shall not affect any action then pending nor abate any cause of action then existing, and the reissued patent, to the extent that its claims are identical with the original patent, shall constitute a continuation thereof and have effect continuously from the date of the original patent.

"No reissued patent shall abridge or effect the right of any person or his successors in business who made, purchased or used prior to the grant of a reissue anything patented by the reissued patent, to continue the use of, or to sell to others to be used or sold, the specific thing so made, purchased or used, unless the making, using or selling of such thing infringes a valid claim of the reissued patent which was in the original patent. The court before which such matter is in question may provide for the continued manufacture, use or sale of the thing made, purchased or used as specified, or for the manufacture, use or sale of which substantial preparation was made before the grant of the reissue, and it may also provide for the continued practice of any process patented by the reissue, practiced, or for the practice of which substantial preparation was made, prior to the

grant of the reissue, to the extent and under such terms as the court deems equitable for the protection of investments made or business commenced before the grant of the reissue."

No. 20662

United States
COURT OF APPEALS
for the Ninth Circuit

EDDELOH BROTHERS SWEED MILLS, INC., et al.,

Appellants,

v.

DE MANUFACTURING COMPANY, a Corporation,

Appellee,

and

DE MANUFACTURING COMPANY, a Corporation,

Appellee and Cross-Appellant,

v.

DDELOH BROTHERS SWEED MILLS, INC., et al.,

Appellants and Cross-Appellees.

ppeal from the United States District Court for the istrict of Oregon—Civil No. 9702 (Judge Solomon)

OPENING BRIEF OF CROSS APPELLANT AND APPELLEE

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SUBJECT INDEX

SUBJECT INDEX (Cont.)

TABLE OF AUTHORITIES

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Cases

III 47-49) by Judge Gus J. Solomon, sitting without a jury, in the District Court for the District of Oregon, in a patent infringement action, holding claims 3, 5 and 7 not infringed, and claim 17 infringed; awarding Cross Appellant, Coe Manufacturing Company, plaintiff, below, damages in the sum of $146,850 with interest at the rate of 6% per annum from August 16, 1965 based upon a royalty of $825 for each infringing apparatus manufactured and sold by defendants; disallowing plaintiff's request for treble damages and attorney fees; and dismissing defendants' counterclaim for a declaratory judgment of invalidity and noninfringement.

Jurisdiction of the District Court

The jurisdiction of the District Court was invoked under 35 U.S.C.A. Sec 281 and 28 U.S.C.A. 1338 (a).

Jurisdiction of the Court of Appeals

The District Court entered final judgment October 6, 1965 (Tr. Vol. III 48-49). Appellants Jeddeloh Brothers Sweed Mills, Inc., et al., defendants below, filed on October 14, 1965, a notice of appeal to this Court (Tr. Vol. III 50). Coe Manufacturing Company, plaintiff below, filed on October 19, 1965 a notice of cross appeal to this Court (Tr. Vol. III 54). Both notices were filed within the time permitted by 28 U.S.C.A. Sec. 2107.

This Court has jurisdiction of the appeal by virtue of 28 U.S.C.A. Secs. 1291 and 1294 (1).

STATEMENT OF THE CASE

Parties and Origin of Action

(Findings of Fact II-XI)[2]

This case comes before this Court for the second time.

Coe Manufacturing Company, owner of the patent in suit and plaintiff in the District Court, hereinafter referred to as "plaintiff" or "Coe," is a corporation which has for many years been engaged in the manufacture of machinery for the plywood, plasterboard and related industries. Jeddeloh Bros. Sweed Mills, Inc., is a corporation which starting in 1955 has been engaged in the operation of a machine shop, the manufacture of machinery for small sawmills, and since about November 1957 the manufacture of apparatus for feeding veneers into dryers. Otto Jeddeloh and Fred Jeddeloh are officers and major stockholders of the corporation. Jeddeloh Bros. Sweed Mills, Inc., Otto Jeddeloh and Fred Jeddeloh, defendants in the district court, will be hereinafter referred to collectively as "defendants" or "Jeddelohs."

In March 1958, Coe sued Jeddelohs for infringement of original Parker Patent 2,649,182. After institution of the suit, Coe filed an application for reissue of the Parker patent, and on April 21, 1959, the Parker patent was surrendered and reissued as Re. 24,638. Following the reissue, Coe filed a supplemental complaint substituting the reissue for the original patent. Jeddelohs

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[2] Most important of the findings of facts on this subject.

answered, denying infringement and validity of the patent and counterclaiming for judgment of invalidity.

The charge of infringement is limited to claims 3, 5, 7, and 17 which were carried over to the reissue patent from the original patent without change (Tr. Vol. I 257).

On April 20, 1960, after trial without a jury, the District Court held claims 3, 5, 7 and 17 of Parker Patent Re 24,638 not infringed and dismissed the complaint and counterclaim without passing on the validity of the patent (Tr. Vol. I 44-45).

Both parties appealed. On July 29, 1962, this Court vacated the judgment of the District Court and remanded the action to the District Court to determine the question of the validity of the Parker patent, redetermine the question of infringement of claims 3, 5, 7 and 17 and make findings of fact and conclusions of law (Tr. Vol. I 4).

This appeal and cross appeal is from judgments previously referred to, entered May 21, 1965, and October 6, 1965, subsequent to the remand.

Feeding of Veneer Dryers Before and After Parker Invention

(Findings of Fact XIII-XV, XVII)

The patent in suit relates to an apparatus for the feeding of stacked veneer into dryers. Thin veneer as it is cut or peeled from a log contains a considerable amount of moisture which must be removed before the veneer can be successfully glued together to form

plywood panels. It is the practice in the industry to dry this wet or "green" veneer by passing it through long heated chambers called dryers. The veneer dryers conventionally utilized are about 14 feet wide and have a number, usually four to six, of vertically spaced sets or decks of rolls upon which the veneer is carried through the dryers.

Heated air is circulated by blowers through the dryers so as to evaporate the moisture from the veneer and reduce it to a relatively dry state. Most efficient drying conditions are obtained when the sheets of veneer being dried are substantially edge to edge and end to end so that in effect each deck of the dryer is one continuous sheet of veneer, being continuously formed at one end and disassembled when dry at the other end of the dryer. In almost every plywood plant the dryer is the "bottleneck" of the plant, and the output of the dryer controls the output of the plant. It is imporant therefore that the dryer be fed uninterruptedly to operate with utmost efficiency.

The veneer is peeled from a log in long strips which are subsequently cut into sheets or panels of desired size and stacked one upon the other for conveyance to the dryer. Different pieces of veneer will require different drying times, etc., depending upon such variables as thickness, moisture content, species of wood, and the like. Different pieces of veneer peeled from a single log will also require different drying conditions, depending upon their position within the log, for example, heart and sap wood. Because of this, the sheets of veneer are

piled into stacks of like drying quality and stored until a large quantity requiring similar drying conditions is accumulated. At that time the stacks to be dried are moved to the dryer for loading therein (Tr. Vol. I 261-262).

Prior to Parker's invention stacks of veneer were placed in front of the dryer with sufficient space between the stacks and the dryer for a number of workmen to operate. The individual sheets or strips of veneer were pulled manually by the workmen from such stacks of veneer and lifted and pushed on and into the individual decks of the dryer. This manual method of feeding dryers has numerous disadvantages, it requires a number of men to pull the veneer from the stacks and push it onto the dryer decks and is therefore expensive, the men frequently are unable to keep the dryer full resulting in decreased efficiency and production of the dryer, and the manual handling of the veneer results in considerable breakage and damage.

Coe has for many years been supplying the plywood industry with veneer dryers, veneer lathes or peelers, veneer clippers, conveyors, etc. Coe has also for many years been manufacturing dryers, conveyors and other apparatus for the plasterboard and other board industries. Because of this Coe was early aware of the need for a less costly and better method of feeding veneer into dryers.

Beginning in the 1930's Coe studied the problem of feeding veneer mechanically and attempted to design apparatus for that purpose. Several unsuccessful devices

were constructed and tested in its shops in Painesville, Ohio. In 1939 and 1940 Coe built three mechanical veneer feeders and installed them in mills in the Northwest. After diligent but unsuccessful efforts to make them work Coe was compelled to scrap them (Tr. Vol. I 306.

Problems Peculiar to Feeding Veneer

(Findings of Facts XVI, XX-XXIII, XXVII, XXIX, XXXI)

As Thomas Miles, a consulting engineer with wide experience in the plywood industry (Tr. Vol. I, 59-60) testified, "veneer is unlike many other materials that have been encountered in industry, and it is not a manufactured product. It is a forest product. Plasterboard, paper, sheetmetal and things, all those various materials, are of a known size, thickness, flatness, flexibility, and all the other characteristics of the materials are known and the products. In the case of plywood, it is relatively light and relatively thin. It constitutes in its green form, approximately half of its weight is water. It has a tendency to curl, and it is widely varying in any given load that is fed into a dryer............ .. ... They can vary all the way from 12 inches wide in each individual piece up to 50 inches wide...... ...." (Tr. Vol. I 62-63).

Because of the peculiar characteristics of veneer and the failure of past efforts to feed veneer mechanically there was a fast conviction in the plywood industry at the time Parker made his invention that a veneer dryer could not be fed mechanically. When the first apparatus

built by Coe in accordance with the Parker patent was shipped to Oregon in 1948, Coe could find no plywood mill operator willing to permit its installation for testing even at no cost to the mill. Not until 1952, four years later, did Coe find anyone willing to have the apparatus tested in their mill and then only in a new plywood mill having an extra dryer not required for its normal operation (Tr. Vol. I 307-313).

Until 1958 all of the mechanical veneer dryer feeders used in the industry were manufactured by Coe or under license from Coe. Coe having secured the industry's acceptance of mechanical feeders, from January 1958 until the time of trial 10 December 1959 defendants were able to manufacture and sell about 100 feeders. The use of mechanical feeders has decreased labor costs while at the same time enabling more efficient handling of dryers thereby effectively increasing the capacity and drying efficiency of the dryers. As a result of this, at the time of the trial nearly every mill was using one or more mechanical feeders, and hand feeding has been virtually eliminated.

Development of Accused Apparatus

(Finding of Facts XXIV, XXV)

Prior to October 1957, Robert Blacketor, manager of Custom Plywood Company of Grants Pass, Oregon, had studied the Coe feeder as well as two different feeders built under license from Coe (DX 142, p. 10). In September or October 1957 he requested the Jeddelohs to build a mechanical feeder for his mill. The Jeddolohs ex-

amined the Coe feeder and the two feeders built under license from Coe, and built the first of the accused feeding apparatuses in about two months. The first Jeddeloh apparatus was installed in Custom Plywood Company's plant about January 1, 1958. Coe learned of the Jeddeloh apparatus about the time it was placed in operation, and by letter dated February 26, 1958, Coe informed Jeddelohs of its belief that their feeder infringed the Parker patent, and they were asked to cease infringing. In ensuing conversations with representatives of Coe, defendants indicated their refusal to discontinue the manufacture of their feeder. Whereupon, the complaint in the present action was filed.

Nature of Invention

(Finding of Facts XVII, XIX, XXX, XXXI)

Clarence E. Parker, the patentee, now deceased, was Design Engineer for Coe for many years and was thoroughly familiar with all of the equipment and operations employed in the plywood industry and in 1948 conceived his invention by which the stacks of veneer are placed in a row in front of the dryer with an operator positioned behind the stack. From this position, an operator simply pushes forward one by one the top sheets of veneer. The sheets are then grasped by nip or pinch rolls and propelled into their proper deck of the dryer, in closely spaced relation to the previously loaded veneer. This type of feeding requires that the top of the stacks be in substantial alignment with the bite of the pinch rolls into which the forward ends of the veneer are pushed by the operator.

Parker stated the objects of his invention as follows:

> "The present invention relates to materials handling apparatus of the feeder type and, more particularly, to apparatus for feeding veneer to a multiple deck conveyor type veneer dryer from a stack of veneer.
>
> "The principal object of the invention is the provision of a simple, inexpensive and reliable apparatus for feeding veneer from a stack of veneer to a multiple deck conveyor type veneer dryer with minimum effort on the part of an operator.
>
> "A more specific object of the invention is the provision of a novel and improved apparatus for feeding veneer from a stack of veneer to a multiple deck conveyor type veneer dryer in predetermined relation upon the top piece of a stack of veneer being pushed forwardly of the stack proper a small amount by an operator."

The drawings of the patent in suit (Tr. Vol II 332-346) show two embodiments of the invention, one being shown in Figures 1 to 8 and the other in Figure 9. The radical difference in appearance between these two devices serves to illustrate the diversity of apparatus in which the invention can be incorporated.

The Parker patent is a combination patent. Coe agrees that one may go to the prior art and find each of the elements of the apparatus shown in the patent. There is nothing, however, in the prior art showing the combination arranged by Parker and set forth in the claims in suit.

As to these matters the District Court found in part as follows:

XXX

"The patent claims here in issue cover new combinations of elements which cooperate to produce a new and beneficial result, and this invention was not obvious to one skilled in the art.

XXXI

"Although each element of the patent in suit is old in the art, in combination they achieved a new result which enabled only one operator to feed sheets of veneer from stacks to various decks of a dryer with greater ease and less breakage and with much less manpower and expense. It was something more than a mere advance in the efficiency or utility of a machine; it was a new method of feeding sheets of green and wet veneer into a dryer.

XXXII

"In support of their allegations of lack of invention, defendants cited 22 prior patents in their answer and in their contentions in the pre-trial order; after remand defendants have relied primarily on three patents: Streeter 1,809,450, Campbell 1,216,-773, and Cross 640,368. Streeter relates to fibreboard and was noted and considered by the Patent Examiner in the application for the Parker reissue patent. Cross and Campbell relate to tinplate and paper.

XXXIII

"Consideration of the cited prior patents and the evidence reveals that:

1. No apparatus constructed in accordance with these prior patents was capable of handling sheets of green veneer;

2. None of such patents, with the exception of

Moore (owned by plaintiff), even claimed to relate to the art of feeding veneer, and an apparatus built in accordance with Moore was incapable of handling veneer;

3. To create an apparatus capable of handling veneer similar to the patent in suit would have required substantial changes not suggested in any prior patent, and no such patent would have suggested the idea patented in Parker to a person skilled in the art; neither did any of these prior patents contain directions for practicing the Parker invention.

XXXIV

"There was a substantial, long-standing need for a mechanical veneer dryer feeder. Plaintiff with well-qualified and experienced personnel in the sheet material handling field spent many years trying to develop a successful feeder. No others were independently successful in developing such a feeder. When finally installed and tried by one of plaintiff's customers, plaintiff's feeders were an immediate commercial success."

Comparison of Accused and Patented Apparatus

(Findings of Fact XIX, XXVI)

Simplied sketches of the Parker apparatus shown in Figs. 1 to 8 and the Jeddeloh apparatus appear at the end of the brief.

In Parker the stacks of veneer to be loaded are stationary. The infeed rolls are elevatable and stack-to-roll alignment is maintained by raising or lowering the infeed rolls so that a workman standing behind the stacks needs only to push the leading ends of the top sheets of

veneer into ready or loading position between the infeed rolls while they are open. The infeed rolls are approximately 14 feet long and veneer is pushed from the several stacks by the operator standing behind the rolls into loading position over the entire length of the rolls. When the infeed rolls are fully loaded, they close upon the ends of the sheets of veneer to pull the veneer from the stacks and with the assistance of belts, encircling and driven by the lower outfeed pinch roll propel it over the table to outfeed rolls, which direct the veneer into one of the dryer decks. The outfeed rolls are moved from deck to deck in sequence.

In Jeddeloh, see sketch at end of brief, the infeed rolls are stationary, and the stacks of veneer are placed on an elevatable platform, which is raised and lowered to maintain stack-to-roll alignment. Veneer is pushed from the stacks into the infeed rolls in the same manner as in Parker. With the load ready the infeed rolls close and propel the veneer over the table to the outfeed rolls which in turn propel the veneer into one of the dryer decks. The outfeed rolls index from deck to deck.

The embodiment of the patented invention shown in Figs. 1 to 8 of the drawings and the Jeddeloh apparatus operate in accordance with identical principles. In both, the sheets of veneer forming the top layer of a stack are pushed, by an operator working behind the stack, forward a short distance into a ready position between separated pinch or nip rolls. The rolls then close and pull the veneer from the top of the stack and feed it to the outfeed pinch rolls, which in turn push the veneer into

the dryer. The set of outfeed pinch rolls is indexed from one deck to another to feed the decks successively.

Both apparatuses have tables interposed between the feed rolls and the outfield rolls for supporting and directing the veneer in its travel from the infeed to the outfeed rolls. The table of the embodiment shown in Figs. 1 to 8 of the patent has belts looped about and driven by the bottom outfeed roll. If veneer longer than the distance between the pairs of infeed and outfeed rolls is being fed, the sheet of veneer is always in the nip of one or the other pair of rolls and propelled thereby at all times. This same is true in Jeddeloh. If the veneer is shorter than the distance between the rolls, in Parker it is supported and carried by the belts on the table for the short interval between the time the trailing end of the veneer leaves the infeed rolls and the leading end of the veneer enters the outfeed rolls; in Jeddeloh, the veneer slides across and is supported and carried by the table from the time it leaves the infeed rolls until it enters the nip of the outfeed rolls.

Both apparatuses have tables for performing the same functions. In both devices, the tables are provided for supporting and directing the veneer in its travel from the infeed to the outfeed rolls.

How Preferred Embodiment of Parker Operates

(Findings of Fact XIX)

As previously mentioned the Parker patent shows two embodiments of the invention, one being shown in Figs. 1-8 of the patent and the other in Fig. 9. A more

detailed description of these embodiments than given heretofore may be helpful to a complete understanding of the Parker patent.

The embodiment of Figs. 1-8 (see Tr. Vol. II 332-333) has a normally open pair of driven infeed pinch rolls, 34, 35, between which the leading ends of the top layer of veneer to be fed into the dryer are pushed by the operator from a row of stacks B, positioned in front of the rolls. The upper roll 35 is movable up and down, so that a row or layer of veneer may be pushed between the rolls when the upper roll is raised. A retractable stop 36 is provided to align the leading ends of the veneer. In timed relation to the operation of the dryer, periodically, the stop 36 is raised and roll 35 lowered so as to cause the veneer to be grasped between rolls 34, 35, and thereby drawn from the stacks and propelled toward the dryer. The infeed rolls 34, 35, are movable vertically as a unit, so that, as veneer is removed from the stacks and the height thereby lowered, the rolls may be lowered by the operator to maintain the nip of the rolls substantially in alignment with the top of the stacks. A motor 100 and suitable controls are provided for this purpose.

The infeed rolls 34, 35, propel the veneer toward a set of driven outfeed rolls 122, 35'. The latter rolls are automatically moved vertically as a unit stepwise past the decks of the dryer so as to feed the veneer into the various decks. To support the veneer between the infeed and the outfeed rolls there is a table D having moving belts 120 encircling the same and the lower outfeed pinch

the dryer. The set of outfeed pinch rolls is indexed from one deck to another to feed the decks successively.

Both apparatuses have tables interposed between the feed rolls and the outfield rolls for supporting and directing the veneer in its travel from the infeed to the outfeed rolls. The table of the embodiment shown in Figs. 1 to 8 of the patent has belts looped about and driven by the bottom outfeed roll. If veneer longer than the distance between the pairs of infeed and outfeed rolls is being fed, the sheet of veneer is always in the nip of one or the other pair of rolls and propelled thereby at all times. This same is true in Jeddeloh. If the veneer is shorter than the distance between the rolls, in Parker it is supported and carried by the belts on the table for the short interval between the time the trailing end of the veneer leaves the infeed rolls and the leading end of the veneer enters the outfeed rolls; in Jeddeloh, the veneer slides across and is supported and carried by the table from the time it leaves the infeed rolls until it enters the nip of the outfeed rolls.

Both apparatuses have tables for performing the same functions. In both devices, the tables are provided for supporting and directing the veneer in its travel from the infeed to the outfeed rolls.

How Preferred Embodiment of Parker Operates

(Findings of Fact XIX)

As previously mentioned the Parker patent shows two embodiments of the invention, one being shown in Figs. 1-8 of the patent and the other in Fig. 9. A more

detailed description of these embodiments than given heretofore may be helpful to a complete understanding of the Parker patent.

The embodiment of Figs. 1-8 (see Tr. Vol. II 332-333) has a normally open pair of driven infeed pinch rolls, 34, 35, between which the leading ends of the top layer of veneer to be fed into the dryer are pushed by the operator from a row of stacks B, positioned in front of the rolls. The upper roll 35 is movable up and down, so that a row or layer of veneer may be pushed between the rolls when the upper roll is raised. A retractable stop 36 is provided to align the leading ends of the veneer. In timed relation to the operation of the dryer, periodically, the stop 36 is raised and roll 35 lowered so as to cause the veneer to be grasped between rolls 34, 35, and thereby drawn from the stacks and propelled toward the dryer. The infeed rolls 34, 35, are movable vertically as a unit, so that, as veneer is removed from the stacks and the height thereby lowered, the rolls may be lowered by the operator to maintain the nip of the rolls substantially in alignment with the top of the stacks. A motor 100 and suitable controls are provided for this purpose.

The infeed rolls 34, 35, propel the veneer toward a set of driven outfeed rolls 122, 35'. The latter rolls are automatically moved vertically as a unit stepwise past the decks of the dryer so as to feed the veneer into the various decks. To support the veneer between the infeed and the outfeed rolls there is a table D having moving belts 120 encircling the same and the lower outfeed pinch

roll 122. If the veneer being fed is of greater length than the distance between the infeed and outfeed rolls, the table serves only to support and direct the veneer, the power for the forward movement being furnished by the rolls. If the veneer is shorter than the distance between the infeed and outfeed rolls, only the outfeed rolls through the belts driven thereby provide the motive power for the veneer during the short interval between the time the trailing end of the veneer leaves the infeed rolls 34, 35, and the time the leading end engages in the outfeed rolls 122, 35'. The opening and closing of the infeed rolls 34, 35 and the indexing of the outfeed rolls 122, 35' past the dryer decks are all in timed relation to the speed of the dryer.

In summary, with the infeed rolls 34, 35 open, the operator pushes the top sheets on the stacks forward a small distance into ready position with their leading ends between the rolls. At the proper moment, the rolls 34, 35 automatically come together and propel the ready layer of veneer across the table D to the outfeed rolls 122, 35', which in turn propel the veneer into a deck of the dryer in close proximity to the previously loaded veneer. At the proper times the outfeed rolls 122, 35' index to the next deck to be loaded and the infeed rolls 34, 35 open to accept a new load.

How an Alternative Embodiment of Parker Operates

(Findings of Fact XIX)

In the embodiment of the invention shown in Fig. 9 (Tr. Vol. II 338) of Parker, an elevator 350 is provided

in front of the dryer and upon which elevator is mounted an assembly, including a supporting frame and a pair of pinch rolls 34, 35 which are similar to the infeed rolls 34, 35 of the embodiment previously described and which rolls are periodically opened and closed in timed relation to the speed of the dryer. The stacks B of veneer to be fed are positioned on the elevator in front of the roll assembly, and the top sheets of veneer are pushed by the operator between the open rolls 34, 35. The rolls 34, 35 are designed to be raised or lowered as a unit by the operator within the supporting frame so that they can be positioned in substantial alignment with the top of the stacks of veneer being fed. The elevator 350 is automatically raised and lowered stepwise past the decks of the dryer so as to bring the rolls 34, 35 sequentially in alignment with the various decks. It will be observed that this embodiment of the invention has no table of any type.

In brief, a load or layer of veneer having its leading end between the rolls 34, 35 is, upon the closing of the rolls, propelled into the aligned dryer deck into substantially abutting relation with the previously loaded veneer on such deck. At the proper time the elevator 350 is indexed to align the rolls 34, 35 with the next deck of the dryer to be loaded, and the rolls 34, 35 opened to receive another charge or load. The operator adjusts the height of the pinch rolls 34, 35 within their support frame. The elevation of the elevator is automatically adjusted so that the position of the rolls 34, 35 relative to the dryer decks is maintained and the sequential feeding will proceed in the desired manner.

How Accused Apparatus Operates

(Finding of Fact XXVI)

Describing the Jeddeloh apparatus in more detail with reference to PX 22A (Tr. Vol. II 349), it includes a pair of driven infeed pinch rolls 48, 72 and a pair of driven outfeed pinch rolls, 47, 71. The top infeed roll 72 raises or lowers in the same manner as in Parker to permit loading of veneer from stacks positioned in front of the operator. Jeddeloh also has a retractable stop 97 for aligning the ends of the veneer pushed between the infeed rolls 48, 72 which stop is automatically raised upon the closing of the infeed rolls and lowered upon the opening of the rolls. Between the infeed and outfeed rolls is a table 51 for the purpose of directing and supporting the veneer as it moves from the infeed to the outfeed rolls. Like the outfeed rolls of Parker's apparatus, the outfeed rolls of defendants' apparatus move up and down past the decks of the dryer so that the successive loads of veneer are discharged sequentially into the decks.

In order to maintain the top of the stacks in alignment with the infeed rolls 48, 72 Jeddelohs provides an elevatable platform 129 in front of the infeed rolls upon which the stacks of veneer to be fed to the dryers are positioned. The infeed rolls 48, 72 are fixed in elevation and as the stacks on the elevatable platform diminish in height, the platform is raised in order to keep the top of the stacks in alignment with the infeed rolls.

Action Subsequent to Remand

Upon remand defendants restricted their defenses and counterclaim to allegations that:

(a) Claims 3, 5, 7 and 17 are invalid as lacking invention.

(b) The reissue was improper and that if so, all claims of the Parker patent, including those claims carried over from the original patent without change, are invalid.

(c) The revisions to the application upon which the original Parker patent was granted concerning Fig. 9 were improper as involving new matter and thus removed the disclosure with respect to Fig. 9 from consideration in interpreting the scope of the claims.

(d) File wrapper estoppel limits the scope of claim 17.

(e) Defendants do not infringe claims 3, 5, 7 and 17. (Finding of Fact XII, Tr. Vol. III 14)

The District Court made comprehensive findings on all of the issues.

The more important findings respecting the prior art and what Parker did to improve upon it are the following:

XIII

"It has been the practice in the Northwest plywood industry since about 1905 to cut or peel thin veneer from a log in long sheets which are thereafter cut into sheets or panels of irregular size and

stacked in piles according to size, grade and thickness. Such veneer contains large amounts of moisture which is removed prior to making the veneer into plywood by passing the veneer through long, heated dryers about fourteen feet wide and having four or more tiered conveyor decks upon which single thicknesses of the veneer are carried through the dryer.

XIV

"Before the invention of the patent in suit, stacks of veneer (usually three) were positioned side by side in front of a dryer and the veneer sheets were pulled off the stacks one at a time by the workmen, who stood between the stacks and the dryer, and lifted and pushed the veneer on and into the individual decks of the dryer. During the feeding of a dryer by hand, the sheets of veneer were sometimes broken or damaged and frequently the dryers were not kept completely full.

XV

"Plaintiff Coe has for many years been the leading manufacturer of equipment for plywood mills; these include dryers, veneer lathes and similar apparatus. It has also manufactured dryers, conveyors and other sheet-handling equipment for the plasterboard and fibreboard industry.

XVI

"Green or undried veneer sheets are dissimilar to manufactured products, such as plasterboard, paper and sheetmetal, in that they vary in quality, length, width, thickness, flexibility, and flatness. Green veneer has a tendency to curl. Because of all

of these characteristics, veneer is difficult to handle, particularly with mechanical apparatus.

XVII

"At least as early as 1936, plaintiff undertook to develop apparatus to mechanically feed veneer to dryers. From 1939 to 1941, plaintiff designed and constructed three different apparatuses for feeding veneer to a dryer. None of them performed satisfactorily, and all were scrapped after trial periods.

XVIII

"In 1948, C. E. Parker, now deceased, then a design engineer for plaintiff, developed the invention of the patent in suit.

XX

"Plaintiff in 1948 constructed a veneer dryer feeder apparatus in accordance with Figs. 1 to 8 of the patent in suit and shipped it to Portland, Oregon, for trial.

XXI

"From 1948 to 1952, plaintiff attempted to secure permission from a number of plywood plants to install the feeding apparatus which it had in Portland on a trial basis. Because of a general belief in the plywood industry that a mechanical veneer feeder could not successfully operate, plaintiff was unable to persuade any plant to try the feeder.

XXII

"In 1952, plaintiff secured permission to install its feeder on a trial basis in a new plywood plant having an extra veneer dryer not required for its

normal plant operation. The feeder performed satisfactorily, was purchased by such plant and was still in operation at the time of trial.

XXIII

"Between 1952 and the time of trial, about 105 Parker feeders built under the patent had been installed in plywood mills. A few of these were constructed under license from plaintiff, the balance by plaintiff.

XXVIII

"Parker's invention enables veneer to be fed to dryers with fewer men, with less damage to the veneer, and with more uniform loading of the dryer resulting in increased efficiency of the dryer.

XXIX

"Mechanical feeders have virtually eliminated hand feeding of veneer dryers, and plaintiff's invention is a commercial success."

The more important findings and conclusions of the District Court relative to the matter of infringement are the following:

XXXVII

"At the trial defendants conceded that the accused apparatus includes all of the elements of the combination patented in Claims 3, 5, 7, and 17 with the exception that defendants contend that they do not employ a conveyor type table between the infeed and outfeed sets of pinch rolls of their accused apparatus or its equivalent and that the accused apparatus does not have a vertically movable infeed end.

XXXVIII

"The preferred embodiment shown in Parker Reissue 24,638 contemplated the feeding of veneer of any length, including veneer shorter than the distance between the infeed and outfeed sets of pinch rolls. To move or carry sheets of veneer from the infeed to the outfeed sets of pinch rolls, the patent in suit employs a conveyor type table which is motivated by moving belts.

XXXIX

"Defendants' accused apparatus does not have a conveyor type table or its equivalent. It employs a stationary plate between the infeed and outfeed pinch rolls. The power to move sheets of veneer over and across the plate is supplied by the pinch rolls.

XL

"Defendants' apparatus does not have a conveyor type table or the equivalent thereof, and therefore does not infringe Claims 3, 5, and 7 of the patent in suit.

XLI

"An essential feature of the Parker apparatus and the accused apparatus is the maintenance of a roll-stack alignment at the infeed end.

XLII

"In the preferred embodiment of Parker, the infeed set of pinch rolls is elevatable, so that they could be raised to the level of full stacks and progressively lowered as the veneer was fed from the stacks. These rolls were designated generally by Parker as a part of a vertically movable assembly.

XLIII

"Parker also states that the infeed rolls could be positioned at some convenient height above the floor, thus contemplating stack adjustment to maintain the top layer of veneer level with the infeed rolls. This suggestion was followed by a Parker licensee who fixed the infeed rolls at a convenient height and put the stacks of veneer to be fed on an elevatable platform. Otto Jeddeloh examined such a licensed machine prior to designing the accused machine.

XLIV

"Every feeding apparatus manufactured by defendant is used with an elevatable platform upon which the stacks of veneer are positioned and elevated as the veneer is fed to mantain the top veneer sheets of the stack substantially aligned with the infeed set of pinch rolls, and these elevatable or scissor-like platforms are integral and essential parts of the accused feeding apparatus.

XLV

"Claim 17, which calls for a vertically movable feed means having an entering end and a discharge end, is generic to both embodiments of the Parker invention.

XLVI

"Both the Parker apparatus and the accused apparatus have vertically movable feed means, and each has an entering end and a discharge end.

XLVII

"The combination of elements in the accused ap-

paratus operates in the same manner as does the Parker invention as defined in Claim 17.

XLVIII

"The elevatable infeed pinch rolls of the Parker embodiments and the elevatable platform of the accused apparatus perform the same functions in substantially the same way to obtain the same result, that is, roll-stack alignment, and the accused apparatus is the full equivalent of the Parker invention as defined in Claim 17.

XLIX

"Defendants assert the defense of file wrapper estoppel limited to Claim 17. This claim was allowed in the form in which it was presented without rejection or amendment, and Parker did not disclaim a structure which he later covered.

'Based upon the foregoing findings of fact, the Court makes the following

CONCLUSIONS OF LAW

* * * * *

V

"Defendants' apparatus does not have a conveyor type table or the equivalent thereof, and therefore does not infringe Claims 3, 5, and 7 of the patent in suit.

VI

"The defense of file wrapper estoppel, limited to Claim 17, is denied.

VII

"The defendants have infringed Claim 17 of the Parker Reissue Patent Re 24,638."

CROSS APPELLANT'S SPECIFICATION OF ERRORS

1. There is no substantial evidence to support the court's finding (Finding of Fact XXXIX, Tr. Vol. III 22) that the accused apparatus does not have a conveyor type table or its equivalent and said finding is clearly erroneous.

2. The court erred in finding (Finding of Fact XL, Tr. Vol. III 22) that defendants' apparatus does not have a conveyor type table or the equivalent thereof and therefore does not infringe Claims 3, 5 and 7. Said finding is contrary to the great weight of all the evidence and is clearly erroneous.

3. The court erred in concluding (Conclusion of Law VI, Tr. Vol. III 25) that claims 3, 5 and 7 of the patent in suit are not infringed by defendants for the alleged reason that defendants' apparatus does not have a conveyor-type table or the equivalent thereof. The weight of the evidence and the law compel a contrary conclusion and said conclusion of the court is clearly erroneous.

4. The court erred in finding (Supplemental Finding of Fact LVII, Tr. Vol. III 46-47) that the licenses granted under Parker Patent No. 2,649,182 do not indicate general acquiescence in the reasonableness of the royalties paid and there is no established royalty rate under Parker Patent Re. 24,638. Said finding is against the clear weght of the evidence and is erroneous.

5. There is no substantial evidence to support the court's finding (Supplemental Finding of Fact LVIII, Tr. Vol. III 47) that $825.00 for each of the veneer dryer feeders manufactured and sold by defendants is a reasonably royalty and adequately compensates plaintiff for the infringement and said finding is clearly erroneous.

6. The court erred in denying (Conclusions of Law X, XI, Tr. Vol. III 25, 26) plaintiff's claim for treble damages and attorney's fees.

7. The court erred in concluding (Supplemental Conclusion of Law B, Tr. Vol. III 47) that an award to plaintiff of $146,850.00 as reasonable royalty was adequate to compensate plaintiff for the infringement complained of through and including June 30, 1965, and in allowing interest only from August 16, 1965.

SUMMARY OF ARGUMENT

1. Facts bearing on infringement are not in dispute, and the question of infringement is one of law reviewable by this court.

2. Defendants conceded that Claim 3 reads on the accused apparatus except that they contend that it has no conveyor type table. The table in the accused apparatus functions in a conveyor application and is therefore a conveyor type table, or in any event, the equivalent thereof.

3. The table in the accused apparatus has the functions of a conveyor table and is therefore a conveyor

type table or the equivalent. The court below found that Claims 5 and 7 read on the accused apparatus except that it does not have a conveyor type table or the equivalent thereof.

4. The licenses granted covered all companies manufacturing veneer feeders prior to the entry of defendants into the field and clearly establish that the royalties paid by the licensees were reasonable and constituted an established royalty rate under Parker Patent Re 24,638.

5. The awarded royalty of $825.00 for each of the veneer feeders manufactured and sold by defendants is less than the royalty paid by licensees of plaintiff prior to defendants' entry into the manufacture of veneer feeders and is, therefore, not a reasonable royalty and does not adequately compensate plaintiff for defendants' infringement.

6. The court below concluded that interest should be allowed only from August 16, 1965, although defendants commenced the manufacture and sale of infringing apparatuses in November 1957 and, if royalties had been paid on the infringing feeders as they were manufactured and sold, plaintiff would have had the use of the royalty money from the dates of sale to August 16, 1965.

7. Defendants developed their infringing apparatus after observing the operation of plaintiff's patented feeder. Although they were immediately notified by plantiff of their infringement, they continued the manufacture and sale of the infringing apparatus and even

continued the manufacture and sale after this court's opinion of June 29, 1962. The infringement was clearly wilful and the trial court's finding that plaintiff was not entitled to treble damages and attorney's fees was not supported by the evidence and clearly erroneous.

ARGUMENT—INFRINGEMENT

Question Properly Before This Court

The facts before this court are not in dispute. Defendants have admitted to the manufacture of the accused apparatus and the structure thereof, and its operation is not in dispute. In such a situation, this court has in numerous cases held that the question of infringement is purely one of law reviewable by this court. *Kemart Corporation* v. *Printing Arts Research Laboratories,* 201 F.2d 624, 96 U.S.P.Q. 159; *Del Francia* v. *Stanthony Corp.,* 278 F.2d 745, 125 U.S.P.Q. 382; *Hansen* v. *Colliver,* 282 F.2d 66, 127 U.S.P.Q. 32.

Claim 3 is infringed

This claim was carried over from the original patent into the reissue without change.

It is admitted that Claim 3 reads on the accused apparatus except that defendants contend that their apparatus does not have a "conveyor type table." During the course of the trial, the court stated the problem in connection with Claim 3 as follows:

> "Does the accused machine have a conveyor type table; that is the question here, or is the table that they have the full equivalent of a conveyor type table." (Tr. Vol. III 75-76)

The court concluded in its opinion (Tr. Vol. III 10) and found in the Findings of Fact XXXIX, XL (Tr. Vol. III 22) that the accused machine does not contain a "conveyor type table" or its equivalent. The court according to its opinion came to this conclusion "because it is the pinch rolls which provide the power to move sheets of veneer over and across the plate" (Tr. Vol. III 10). The court, in other words, came to the conclusion that to be a conveyor type table, the table must provide the power.

Plaintiffs' witness Miles under interrogation by the court testified in part as follows:

> "THE COURT: That table at which Mr. Krause is sitting here, you would not regard that as a conveyor type table, would you?
>
> THE WITNESS: Well, it could be made into one, I suppose, if you wanted to do it.
>
> THE COURT: How would you do that?
>
> THE WITNESS: By applying it as in a conveyor application in which you would use the table as a fundamental part of a regular operating mechanism in which material was being introduced at one end and pushed across and taken off at the other end.
>
> THE COURT: In other words, if they had a mechanism where you are standing and one on the opposite side, one which would push and the other which would pull a piece of lumber, for example, you would then say that the table has been converted into a conveyor type table?
>
> THE WITNESS: It is a conveyor, a part of the conveyor system.
>
> THE COURT: You are not answering the ques-

tion. Why don't you answer the question, whether the table is a conveyor type table?

THE WITNESS: All right, then; it is a conveyor type table. Then it is a conveyor type table.

THE COURT: *I do not believe it, and I do not believe any dictionary definition would cover that either.* (Emphasis added.)

THE WITNESS: I would like to submit that there are a number of applications in transporting materials in the merchandise-handling field in which the conveyor type table, if you will, is merely a flat table. As in the case of Parker, actually there is a solid table just as there is in the case of Jeddeloh, but because of the length the belts have been added to carry it from one roll to the next." (Tr. Vol I 79, 80)

Language in Patent Interpreted by Understanding of Person Skilled in Art

In determining what was meant by a conveyor type table, it was the trial court's duty to ascertain and be guided by what a person skilled in the art would understand by the words (35 U.S.C. 112). As was said in *Standard Duplicating Machine Co.* v. *American Business Machine Co.,* 174 F.2d 101, 81 USPQ 239 (C.A. 1, 1949):

> ". . . patents are not to be read with the attention focused solely upon an unabridged dictionary and an English grammar. The purpose of a patent is to disclose the invention described therein to the public, that is, to that part of the public skilled in the art to which the patent appertains, *and hence they are to be read as those conversant with the art involved would read them.*" (Emphasis added)

It is conceded that the accused device contains a table and the Jeddeloh Patent 2,876,009 (Tr. Vol. II 592, col. 2, l. 13), so identifies that element. Obviously, the table in the accused device is placed there for a purpose. It is not there for the purpose of storing, sorting or examining material placed on it or that passes over it. Its only purpose is to participate in some way in conveying material from the infeed rolls to the outfeed rolls. For this same reason, a table was introduced into the plaintiff's feeder apparatus.

Claim 3 does not specify a conveyor table but rather a conveyor type table. It must be assumed that the draftsman included the word "type" advisedly. Had the draftsman intended to claim only a belt conveyor table, he would have so stated, but obviously claim was made to a conveyor table without specifying the type of propulsion to be used in passing the material over the table. The moving belts powered by the rolls are used in the Parker apparatus to facilitate the feeding of veneer shorter than the distance between the infeed and outfeed rolls. The usual lengths of veneer are from four to twelve feet plus three or four inches of trim (Tr. Vol. I 81). In the accused apparatus, the rolls are less than four feet apart, and therefore propulsion of the veneer across the table is provided by the moving rolls. The infeed rolls push the leading edge of the veneer over the table until gripped by the outfeed rolls. For a moment the veneer is in the grip of both sets of rolls. Thereafter, the veneer is drawn across the table by the outfeed rolls and discharged into the dryer.

Veneer is a thin, flexible material, and some of the sheets are warped, deformed or splintered (Tr. Vol. I 62, 63). The leading end will slide across and be directed by the table into the outfeed rolls, and the following or trailing end of the veneer after leaving the infeed rolls will slide along the table until it reaches the outfeed rolls (Tr. Vol. I 74-75, 119, 213).

In both the accused apparatus and in the apparatus shown in Figs. 1 to 8 in the patent in suit, some means are necessary to convey and direct or support the veneer or at least the leading and following ends of the veneer from the infeed to the outfeed rolls. Because Parker contemplated handling veneer of any length, including veneer that is shorter than the distance between the infeed and outfeed rolls, he showed in his preferred embodiment a table with a plurality of moving belts to propel such shorter veneer from the infeed to the outfeed rolls. Where longer sheets of veneer are handled, the sheets are propelled by the infeed and/or outfeed rolls at all times and the belts are not necessary (Tr. Vol. I 85-86). The accused apparatus is designed primarily to handle veneer longer than the distance between the infeed and outfeed rolls. Where the veneer is longer than the distance between the set of rolls, the propulsion of the veneer can be attained solely by the pushing of the infeed rolls and the pulling of the outfeed rolls; where it is shorter, it slides across the table from the infeed to the outfeed rolls. *In both the patented and in the accused apparatus, a table with characteristics of a conveyor table is necessary for reliable operation and to avoid damage to the veneer.*

Defendants' table has only one useful purpose, namely, to support, to convey, to carry, and to direct the veneer as it moves from the infeed to the outfeed rolls. Webster's Collegiate Dictionary, Fifth Edition; G. & C. Merriam Co. (1943) says that the word convey means "to bear from one place to another; carry; transport. . . . To serve as a medium or conduit for." Clearly, table 51 of the accused apparatus serves as a medium to bear, carry and/or transport the veneer from one place to another, namely, from the infeed to the outfeed rolls. It functions as a "conveyor type table."

Both plaintiff's witness, Miles, and defendants' witness, Schulein, testified that the thing which characterized a table as a conveyor or a conveyor type table was its use in a conveying situation (Miles, Tr. Vol. I 79; Schulein, Tr. Vol. I 212-3). They agreed that in conveyors the force to move an object may come from a moving element supporting the object or from some other source (Miles, Tr. Vol. I 80; Schulein, Tr. Vol. I 211). Schulein testified:

> "I would say that if you have a level thing as you are talking about and you start something up with momentum and then you release your force from the thing that you are pushing and allow it to continue under its own momentum across that, then you have made a conveyor out of it because it is performing a conveying function." (Tr. Vol I 209)

It would seem that it would be logical to conclude you also have a conveyor if force is continually applied to the object being moved, and Schulein admitted that he had seen such conveyors:

"Q. You have seen conveyors, haven't you Mr. Schulein in which the power is continually being applied to the thing that is being conveyed?

A. Yes." (Tr. Vol. I 211)

In his patent specification, Jeddeloh stated that his apparatus would feed veneer of three-foot length, shorter than the distance between the infeed and outfeed rolls which he fixes at "slightly less than four feet" (Tr. Vol. II 591, Col. 2, lines 4-6). After the infeed rolls release the three-foot veneer, its momentum must carry it across the table, and, according to defendants' expert Schulein, it is a conveyor table.

The court specifically found that:

"The Jeddeloh apparatus is similar to the Parker embodiment shown in Figs. 1 to 8. Infeed and outfeed pinch rolls are provided, . . . A flat 'plate or table' extends from the infeed to the outfeed pinch rolls . . . The infeed pinch rolls push or feed the sheets forward over the plate or table and into outfeed pinch rolls whereupon the outfeed pinch rolls continue the feeding operation. . . ." (Finding of Fact XXVI, Tr. Vol. III 22)

In view of the testimony this is in substance a finding that the "plate or table" of the accused feeder is a "conveyor type table."

The testimony conclusively established that a table with conveyor belts is only one type of conveyor table and that any table over which products move regardless of the manner in which power is applied, is a conveyor type table. Miles so testified and no other conclusion

could be drawn from the testimony of defendants' expert Schulein. In view of this testimony and the admitted fact that defendants' table has *conveying functions,* the trial judge's finding that defendants' apparatus has no conveyor type table is without support and clearly erroneous.

We submit that the accused apparatus contains the exact structure called for in Claim 3.

Accused Apparatus Has Full Equivalent of Parker Conveyor Type Table

The court found that the accused apparatus did not have a conveyor type table or its "equivalent" (Finding of Fact XXXIX, XL, Tr. Vol. III 22). These findings compel us to discuss the doctrine of equivalents as applicable to this element. The evidence as heretofore shown is convincing that the invention of the patent is a "pioneer invention" as defined in *Dean Rubber Mfg. Co.* v. *Killian,* 106 F.2d 316, 319, 42 U.S.P.Q. 493, 497 (C.A. 8). As in that case, the record shows Parker was the first:

> ". . . to produce a machine which successfully performed the function which had been formerly done by hand, and the mechanical performance of which had been long sought by the industry, and that the machine of the patent is, therefore, a pioneer invention . . . and even if regarded as no more than an improvement patent, it has demonstrated its worth and importance to such an extent as to entitle it to a broad range of equivalents approaching that of a pioneer invention. (Eibel v. Paper Co., 261 U.S. 45-63)"

Doctrine of Equivalents

The criteria for the doctrine of equivalents was set forth most recently by the Supreme Court in *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.,* 339 U.S. 605, 607-8, 85 U.S.P.Q. 328 (1950):

> "In determining whether an accused device or composition infringes a valid patent, resort must be had in the first instance to the words of the claim. If accused matter falls clearly within the claim, infringement is made out and that is the end of it.
>
> "But courts have also recognized that to permit imitation of a patented invention which does not copy every literal detail would be to convert the protection of the patent grant into a hollow and useless thing. Such a limitation would leave room for—indeed encourage—the unscrupulous copyist to make unimportant and insubstantial changes and substitutions in the patent which, though adding nothing, would be enough to take the copied matter outside the claim and hence outside the reach of the law. One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form. It would deprive him of the benefit of his invention and would foster concealment rather than disclosure of inventions, which is one of the primary purposes of the patent system.
>
> "The doctrine of equivalents evolved in response

to this experience. The essence of the doctrine is that one may not practice a fraud on a patent. Originating almost a century ago in the case of Winans v. Denmead, 15 How. 330, it has been consistently applied by this Court and the lower federal courts and continues today ready and available for utilization when the proper circumstances for its application arise. 'To temper unsparing logic and prevent an infringer from stealing the benefit of the invention' a patentee may invoke this doctrine to proceed against the producer of a device 'if it performs substantially the same function in substantially the same way to obtain the same result.' Sanitary Refrigerator Co. v. Winters, 280 U.S. 30, 42 (3 U.S.P.Q. 40, 44). The theory on which it is founded is that 'if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form, or shape.' Machine Co. v. Murphy, 97 U.S. 120, 125. The doctrine operates not only in favor of the patentee of a pioneer or primary invention, but also for the patentee of a secondary invention consisting of a combination of old ingredients which produce new and useful results, Imhaeuser v. Buerk, 101 U.S. 647, 655, although the area of equivalence may vary under the circumstances. See Continental Paper Co. v. Eastern Paper Bag Co., 210 U.S. 405, 414-415, and cases cited; Seymour v. Osborne, 11 Wall. 516, 556; Gould v. Rees, 15 Wall. 187, 192."

In *Cutter Laboratories, Inc.* v. *Lyophile-Cryochem Corp.,* 179 F.2d 80, 84 U.S.P.Q. 54 (C.A. 9, 1949), the defendant was charged with infringing a process patented for preserving biologically active substances, the

claims utilizing the terms "quick freezing" and "substantially instantaneous freezing." The patent described in the specification a process involving freezing at minus 70° C, and the alleged infringing process froze the materials at minus 20° C. The Court found the patent infringed because slower freezing at -20° C was the equivalent of quick freezing at -70° C, even though the infringing process did not use "quick freezing." The Court said:

> "Appellant has merely replaced substantially instantaneous freezing with slower methods of freezing well known in the prior art. There is nothing to show that appellant achieves any substantially different or improved result by the slower method as compared with the results achieved by the Reichel process. Appellant has used all the inventive elements of the claims and, in place of another element, quick freezing, used a substitute well known at the time of the invention, slower freezing. Cf. Pederson v. Dundon, 220 F. 309; Casier v. Mackie-Lovejoy Mfg. Co., 183 F. 654. It has been long established that such a substitution does not avoid infringement. Gill v. Wells, 89 U.S. 1, 15, 28-32.
>
> "Appellant invokes the doctrine of Keystone Bridge Co. v. Phoenix Iron Co., 95 U.S. 274, that no limitation which a patentee puts into his claim may be ignored, whether or not the limitation was necessary to validate the claim. See also Fay v. Cordesman, 109 U.S. 408. One reason for this rule is to give notice to possible infringers of the claim's limits; another is to relieve the courts of the burden of deciding just what elements are material to the validity of the claim. But where attempts are

> made to avoid infringement by relatively slight, well known variations in the claimed process or product, the strict rule is relaxed by the doctrine of equivalents. 'Without that doctrine every claim is indeed entitled to be interpreted in the light of the specifications as a whole, and not to be read merely with a dictionary. *But often even with the most sympathetic interpretation the claim cannot be made to cover an infringement which in fact steals the very heart of the invention;* no matter how auspiciously construed, the language forbids. *Is is then that the doctrine of equivalents intervenes* to disregard the theory that the claim measures the monopoly and ignores the claim in order to protect the real invention. (citing cases)" (Emphasis added) (179 F.2d at 89, 84 U.S.P.Q. at 61)

In the case at bar as in the cited case, the defendants have stolen "the very heart of the invention."

In *E. H. Bardes Range and Foundry Co.* v. *American Engineering Co.,* 109 F.2d 696, 698, 44 U.S.P.Q. 630 (C.A. 6, 1940), the Court said:

> "Except where form is of the essence of the invention, one device is an infringement of another 'if it performs substantially the same function in substantially the same way to obtain the same result,' Machine Company v. Murphy, 97 U.S. 120, 125, and mere colorable departures do not avoid infringment, McCormick v. Talcott, 20 How. 402, 405. A close copy which seeks to use the substance of the invention, and although showing some change in form and position, uses substantially the same device, performing precisely the same offices with no change in principle, constitutes an infringement.

Ives v. Hamilton, 92 U.S. 426, 430. Even where the invention must be restricted in view of the prior art to the form shown and described by the patentee and cannot be extended to embrace a new form which is a substantial departure therefrom, there is infringement where the departure is merely colorable. Duff v. Sterling Pump Co., 107 U.S. 636, 639; Sanitary Refrigerator Co. v. Winters, 280 U.S. 30, 41 (3 USPQ 40)."

In the case at bar, Jeddeloh uses "the substance of the invention, and although showing some change in form and position, uses susbtantially the same device, performing precisely the same offices with no change in principle." This constitutes an infringement.

The facts in *Hansen* v. *Colliver, et al.*, 282 F.2d 66, 127 U.S.P.Q. 32, decided by this Court on August 23, 1960, are substantially identical with those in the case at bar. In that instance, this Court held that a "table" functioning to keep a wire rope from slipping off a pin functioned as a "guide" and was an equivalent of the tubular sleeve structure shown in the patent and performing the same function.

As did the patentee in the last-cited case, Parker showed a preferred embodiment of his invention but pointed out in the concluding paragraph of the specification:

> "While the preferred embodiment of the invention has been described with considerable detail, the invention is not limited to the particular construction shown and it is the intention to cover hereby all adaptations, modifications and uses

> thereof which come within the practice of those skilled in the art to which the invention relates and the scope of the appended claims." (Tr. Vol. II 343, Col. 10, lines 10 to 22)

Applying the Law to Case at Bar

In the case at bar, defendants have appropriated Parker's concept of utilizing a table between the infeed and outfeed rolls which has the characteristics of a conveyor table. Both parties use pinch rolls for propulsion, but Parker added moving belts for more efficiently handling veneer shorter than the distance between the rolls. Both devices are identical in all respects except that Parker is especially designed to handle veneer shorter than the distance between the rolls. This Court has pointed out that infringement is not avoided merely by the selection of a less efficient mode of operation. *Stearns* v. *Tinker and Rasor,* 252 F.2d 589, 116 U.S.P.Q. 222 (C.A. 9). See also *Weiss* v. *R. Hoe & Co, Inc.,* 109 F.2d 722, 726, 44 U.S.P.Q. 412, 416 (C.A. 2), where the Court held "the fact that an infringer copies imperfectly and does not achieve the full result of the patent is not sufficient to prevent infringement where there has been substantial copying."

To paraphrase the conclusion expressed by this Court in *Hansen* v. *Colliver,* supra, the inventive idea was appropriated by the defendants and the end result achieved under Claim 3 and the defendants' device is the same. Defendants use a fixed plate or table in a conveyor situation and the power of the pinch rolls for moving the veneer over the same, thereby making the

plate a "conveyor type table" or the full equivalent thereof.

We submit that the accused apparatus if not containing the exact structure called for in Class 3 contains the equivalent thereof.

Claims 5 and 7 are infringed

These claims (Tr. Vol. II 344) were carried over from the original patent into the reissue without change.

The Court found that the accused apparatus includes all of the elements called for in Claims 5 and 7 with the exception of a "conveyor type table or its equivalent." The error of the Court concerning the "conveyor type table" has been fully discussed above under Claim 3 (Brief p. 29-42).

It is clear that defendants' apparatus infringes Claims 5 and 7, under the decisions of this Court referred to above. The finding of the trial court to the contrary was not supported by any evidence and was clearly erroneous.

ARGUMENT — DAMAGES

Patent infringement is a tort and in considering the damages due a patent owner against whom the tort has been committed, the same consideration should be given as is given in the award of damages in any other tort case. That is to say, the damages awarded ought to be sufficient to compensate the injured party for the injuries sustained by reason of the tort. The Patent Act so provides:

> Sec. 284
>
> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer. . . ."

In its latest consideration of the question of damages, the United States Supreme Court in *Aro Mfg. Co. v. Convertible Top Replacement Co.,* 377 U.S. 476, 141 USPQ 681, 694, had this to say:

> "But the present statutory rule is that only 'damages' may be recovered. These have been defined by this Court as 'compensation for the pecuniary loss he (the patentee) has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts. Coupe v. Royer, 155 U.S. 565, 582. They have been said to constitute 'the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.' Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552. The question to be asked in determining damages is 'how much had the Patent Holder and Licensee suffered by the infringement. And that question (is) primarily: had the Infringer not infringed, what would Patent Holder-Licensee have made?' Livesay Window Co. v. Livesay Industries, Inc., supra, 251 F.2d at 471, 116 USPQ at 168.
>
> "Thus to determine the damages that may be recovered from Aro here, we must ask how much CTR suffered by Aro's infringement—how much it would have made if Aro had not infringed."

A determination of exactly how much the patent owner, in the present instance Coe, suffered by reason of Jeddelohs' infringement would involve determination of what sales Coe lost because of the infringement and what profit Coe would have made on such sales. In addition, there are other matters such as the expense to which Coe was subjected because of the infringement and Coe's losses because of the detrimental effect that Jeddelohs' infringement had on Coe's selling price of its own equipment.

Prior adjudicated cases indicate that such determinations require years to complete, at the most are only partially satisfactory, and that during such time the infringement continues causing the patent owner further damage.

This suit was commenced March 20, 1958, and has been pending almost eight years. Although the Court had appointed a master to determine damages, to avoid the prolonged accounting period and to bring this long proceeding to an end with dispatch, the parties agreed to a determination of damages by the Court under 35 U.S.C. 284 upon evidence of what would constitute a reasonable royalty.

Coe submits that the damages awarded plaintiff by the District Court are not adequate to compensate it for Jeddelohs' infringement and are less than a reasonable royalty, contrary to the above statute. The award is in conflict with the great weight of the evidence, and there is no substantial evidence to support the Court's holding that $825 per feeder is a reasonable royalty. This Court has held:

> "As a general rule the primary method of assessing damages for infringement of a patent is using the claimant's established royalties as a measure of those damages." *U.S. National Bank* v. *Fabri-Valve Co. of America,* 235 F.2d 565, 110 USPQ 77 (1956).

The Court went on to say:

> "It occurs to this court that there ought to be a very good reason to depart from the established royalty of five per cent, which is prima facie the ordinary, correct measure."

The evidence shows and the Court found plaintiff had granted four licenses under the patent prior to defendants' infringement. In 1956 Moore Dry Kiln Company was granted a license requiring the licensee to pay as a royalty an amount equal to five per cent of Coe's selling price of its Model 48 machines built under the patent. At that time the price of plaintiff's feeder was $18,750.00 and has never since been less. In accordance with the terms of the agreement, Moore manufactured and sold three feeders under its license and paid Coe a royalty of $937.50 per feeder (Tr. Vol. III 45).

In 1956 plaintiff also granted American Manufacturing Company of Tacoma, Washington, three separate licenses for individual feeder installations made by American. Under the terms of such licenses American paid Coe a royalty of $1,000.00 for each of the three licensed feeder installations.

In spite of this evidence of four separate licenses to the only other then existing feeder manufacturers the

court erroneously concluded that "the circumstances and number of licenses granted under Parker patent, No. 2,649,182, do not indicate a general acquiescence in the reasonableness of the royalties paid and there is no established royalty rate under Parker patent, Re. 24,638." (Finding of Facts LVII, Tr. Vol. III 46).

Plaintiff also introduced as evidence of a proper royalty on comparably priced material handling apparatus, a license agreement covering a plasterboard stacker which it had entered into with National Gypsum Company and under which Coe was obligated to pay a royalty of $1,000.00 for each stacker it manufactured and sold, the selling price of which stackers was $17,000. (PX 70, Tr. Vol. IV 171).

Plaintiff also introduced evidence of a license agreement which it had entered into requiring it to pay royalties under a patent covering a trimmer for plywood veneer. Mr. Frank W. Milburn, Jr., president of plaintiff, testified that Coe paid a royalty of $1,000 per machine which sold for $18,500 (Tr. Vol. IV 168).

In addition, Ford E. Smith, a patent attorney practicing in Seattle, Washington, and admitted as an expert in patent and royalty matters, testified that in his opinion "the royalty (payable to Coe) ought to be somewhere in the neighborhood of $1,200.00 per machine —at least $1,000 and upward to $1,200." (Tr. Vol. IV 188).

The licenses granted by plaintiff to Moore and to American and the other evidence and testimony clearly establish that there was an established royalty of from

$937.50 to $1,000 per feeder and that a reasonable royalty would be no less than $937.50 per infringing machine. More persuasively the royalty ought to be a minimum of $1,200 for certainly an infringer should not receive a more favorable rate than a voluntary licensee.

The views of Judge Leahy in *Hartford National Bank* v. *E. P. Drew & Co., Inc.,* 188 F. Supp. 353, 126 USPQ 487 (D.C. Del., 1960) aff'd. 290 F.2d 589 are pertinent:

> "One measure of damages in infringement cases is on an established royalty basis which is the royalty paid by others in an industry and which indicates a general acquiesence in the value of the invention. In contrast, if a reasonable royalty base is applied, this represents the amount one would pay for the use of the patent as a business proposition, after evaluating the novelty of the invention, its utility and advantages. Faulkner v. Gibbs, 9 Cir., 199 F.2d 635, 95 USPQ 400. *A reasonable royalty is often higher than an established royalty for the latter is usually based upon agreements negotiated before the patented invention is broadly recognized and before the patent stands the test of judicial scrutiny. The lowest return for a measure of damages would be on the basis of an established royalty.*" (Emphasis added)

Additional facts to be considered in determining Coe's damages is that there is a limited market for veneer feeders and that the market has been substantially saturated as of today. There are approximately 500 veneer driers capable of utilizing feeders of the type with which we are concerned here (Tr. Vol. IV 174). As of

August 11, 1965, Coe has sold 225 feeders and the defendants 178. Other manufacturers in the meantime have sold about 50 which leaves a very limited available market.

At the hearing on the question of damages, defendants produced as a witness Mr. Harold R. Evans, Director of the Plywood Research Foundation, who testified that in his opinion a reasonable royalty would be in the area of three per cent of the infringers' sale price (Tr. Vol. IV 122). However, this witness admitted that he had negotiated a license requiring payment of a ten per cent royalty on apparatus for feeding plywood into a sander. Under the circumstances, it would not appear that his opinion is entitled to much weight.

In addition, defendants called Mr. John Graybeal, a patent attorney in Seattle, who testified that he thought a reasonable royalty rate would be two and one half per cent based on the defendants' sale price (Tr. Vol. IV 237). Mr. Graybeal gave this opinion even though he admitted that he had seen fit to negotiate on behalf of a client a license agreement requiring the licensee to pay a five per cent royalty on lumber sorting apparatus which was still in the experimental stage (Tr. Vol. IV, 77-79) and which was not even patented (Tr. Vol. IV, 88).

It would seem clear from the present record that a reasonable royalty for use of the invention by defendants would be from $1,000.00 to $1,200.00 for each infringing machine, and the District Court should be instructed to modify its judgment by awarding the roy-

> from the patent owner that it intended to insist upon its rights, deliberately continued to make use of the invention after the issue of the patent, and took the risk, now resolved against it by the decisions of the courts, that the patent might be declared valid. Manifestly this infringing use was a wrong from which the tort feasor should not be allowed to profit by being placed in a better position than the manufacturers who respected the owner's rights and paid for licenses under the patent. We cannot accord to a patent infringer the privilege of using a patent, while unsuccessfully challenging its validity in the courts, and exempt him from the burden of paying the recognized price for his delay in meeting his obligations.
>
> "The decree of the District Court will therefore be affirmed in all respects, (including its disposition costs) except as to the interest period. Interest on damages should be calculated from the dates upon which royalties should have been paid after June 19, 1925 (date of plaintiff's notice of infringement to defendant). The costs in this court will be divided and the case remanded to the District Court for further proceedings."

Interest in accordance with the *Swan* decision was granted on an award of a reasonable royalty from the end of each yearly period for which royalties should have been due, the royalties being established on the yearly trade in that case. In this case American and Moore paid within thirty days of each sale.

As in the *Swan* case "special circumstances" exist here:

1. Plaintiff's feeder was the inspiration for defendant's feeder.

2. Defendants were notified promptly of their infringement but *deliberately continued to make use of the invention.*

3. Defendants entered a new field to them pioneered and opened up for them by plaintiff.

4. Defendants persisted in the infringement even after the opnion of the Court of Appeals indicating likelihood of infringement in that Court's view.

5. Defendants' own expert, Schulein, indicated in his opinion the patent in suit was valid.

6. Defendants' infringing activites have undoubtedly deprived plaintiff of sales in what is a limited market.

7. Defendants' activities in resisting the patent encouraged others (Moore & Prentice) to enter the field further limiting plaintiff's sales and profits.

Judge Learned Hand thought it equitable to require interest on reasonable royalties to be paid from the date upon which infringement occurred and so fixed interest in *Cincinnati Car Co.* v. *New York Rapid Transit Corporation,* 66 F.2d 592 (C.C.A. 2, 1933). His language is as follows:

> "It seems to us that a royalty of $100 for each articulation is the utmost that we can fix upon this record, and we find that amount as reasonable. This should carry interest from the date of the first in-

fringement, that being the period when presumptively it would have been paid."

In *Hartford National Bank and Trust Company, et al* v. *E. F. Drew & Co., Inc.,* 188 F. Supp. 347, 127 USPQ 243, (D.C. Del., 1960), aff'd. 290 F.2d 589, Judge Leahy expressly granted interest from the end of each calendar year as follows:

> "Defendant's proposal as to the interest award is rejected. Plaintiff's is accepted, i.e., interest will be allowed on the main award of damages at a rate to be discussed, infra, from the end of each calendar year in which defendant's sales were made, as part of the general damages for defendant's infringement of plaintiff's patent. While defendant argues the circumstances of this case are such there should be a refusal to award any interest, I do not pause to discuss the allowance of interest in the light of the infringement that has occurred in the instant case as viewed by this Court and the Court of Appeals under the circumstances of defendant's tortious conduct. The award of interest here, is, however, not a punitive device. Allowed interest in this case represents damages for delay in payment and compensation for use of plaintiff's money that should have been included in withheld annual royalty statements which, of course, were never rendered by the infringer. In short, it is moratory interest and not contract or punitive interest."

Other decisions awarding interest for damages from the date of infringement include:

National Brake & Electric Co. v. Christensen, 38 F.2d 721, 723 (C.C.A. 7, 1930).

Munising Paper Co., Ltd. v. American Sulphite

Pulp Co., 228 F. 700, 708 (C.C.A. 6, 1915).
B. F. Goodrich Co. v. Consolidated Rubber Tire Co., 251 F. 617, 624 (C.C.A. 7, 1918).

Defendants' Infringement was Wilful and Plaintiff Should Be Awarded Exemplary Damages and Attorney's Fees.

Defendants' infringement was a wilful act and plaintiff is entitled to exemplary damages and reasonable attorneys' fees as provided in 35 U.S.C. 284 and 35 U.S.C. 285.

The defendants designed and manufactured their first veneer feeder after plaintiff had introduced and established its feeder into the industry at great expense. Defendants admitted they arrived at their design only after observing the operation of plaintiff's apparatus and the apparatus of plaintiff's licensee, Moore Dry Kiln Co. Defendants made no effort to determine whether there were any patents covering the feeders being manufactured by plaintiff and Moore, and continued their manfacture after being advised by plaintiff of the existence of the Parker patent immediately after the installation of their first machine. In the face of evidence that defendant intended to continue to manufacture feeders infringing the patent in suit, plaintiff filed its complaint March 20, 1958, which was one day prior to the invoice date of the sale of defendants' second infringing feeder (DX 73, Invoice No. 1314). Defendants continued with their infringing activities, and in fact continued without restraint even after this court's opinion of June 29, 1962. In the face of such activities it is difficult to reach a

conclusion other than that defendants' infringing activities were wilful and wanton justifying an increase in the damages awarded as authorized under 35 U.S.C. 284 and attorney's fees under 35 U.S.C. 285. In approving an award of exemplary damages and attorney's fees the Court of Appeals for the First Circuit in *Russell Box Co.* v. *Grant Paper Box Co.,* 203 F.2d 177, 183, 97 USPQ 19, 23, had this to say:

> "First and foremost in emphasis is the contention that justification is lacking for an increase of actual damages by 50% and an award of counsel fees. Again we do not agree.
>
> "As already indicated, the master found that although Russell believed that it was not infringing, its belief 'was due to carelessness in ascertaining the facts, carelessness in construing claim 3 or a combination of the two.' And the District Court in its memorandum opinion said that it 'heartily' concurred in this statement. Moreover, there is ample evidence to support the master's finding specifically adopted by the court below that the defendant had failed to preserve its records and had failed to cooperate as it should at the trial of the issue of damages. These findings cannot successfully be attacked as lacking support in the evidence, and they are clearly adequate to support an increase of the actual damages proved by 50% and an award of counsel fees. We would certainly be loath to disturb a conclusion of the District Court in a matter so peculiarly within its competence as an increase in damages and an award of counsel fees in cases of this sort, and viewing this litigation as a whole, we have no disposition to do so here. Indeed,

> we feel the increase in the damages and the award of counsel fees are wholly justified."

The finding of the trial court that defendants' infringement was not wilful was clearly erroneous is not supported by the evidence and should be reversed by this court.

CONCLUSION

Claims 3, 5 and 7 are infringed.

A reasonable royalty for use of the Parker invention is not less than $1,200.00 for each infringing apparatus.

Interest should be allowed from the date of each sale of an infringing apparatus..

Plaintiff is entitled to exemplary damages and attorneys' fees.

Respectfully submitted,

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Ex. No.	Identified	Offered	Received	Rejected
		Defendants' Exhibits		
101-124, incl.,	Pretrial Order	Tr. Vol. I 162	Tr. Vol. I 162	
125	Tr. Vol. I 153	" 153		Tr. Vol. I 253
126	" 153	" 153		" 253
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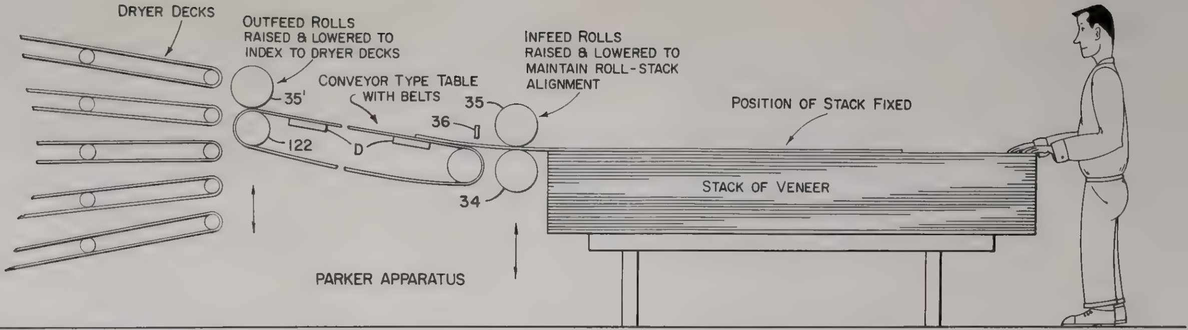
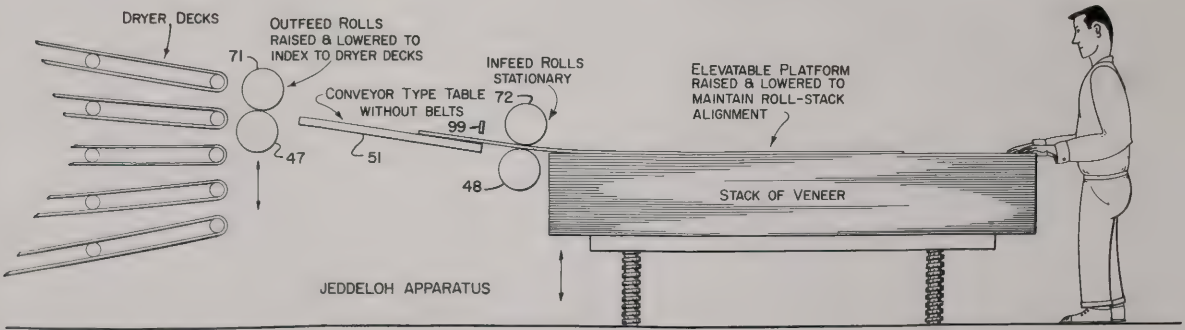


PARKER APPARATUS



JEDDELOH APPARATUS

No. 20662

United States
COURT OF APPEALS
for the Ninth Circuit

JEDDELOH BROTHERS SWEED MILLS,
INC., a Corporation,
OTTO JEDDELOH, FRED JEDDELOH,
Appellants,

v.

COE MANUFACTURING COMPANY,
a Corporation,
Appellee,

COE MANUFACTURING COMPANY,
a Corporation,
Appellee and Cross-Appellant,

v.

JEDDELOH BROTHERS SWEED MILLS,
INC., a Corporation,
OTTO JEDDELOH, FRED JEDDELOH,
Appellants and Cross-Appellees.

Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

BRIEF FOR CROSS-APPELLEES AND APPELLANTS

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No. 20662

United States
COURT OF APPEALS
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Appellants,

v.

COE MANUFACTURING COMPANY, a Corporation,
Appellee,

COE MANUFACTURING COMPANY, a Corporation,
Appellee and Cross-Appellant,

v.

JEDDELOH BROTHERS SWEED MILLS, INC., a Corporation,
OTTO JEDDELOH, FRED JEDDELOH,
Appellants and Cross-Appellees.

Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

BRIEF FOR CROSS-APPELLEES AND APPELLANTS

CLAIMS 3, 5 AND 7 ARE NOT INFRINGED

The Trial Court correctly found that claims 3, 5 and 7 of Parker Patent Re. 24,638 are not infringed by the ac

cused Jeddeloh apparatus. In the ensuing discussion we will show how the following pertinent findings of fact are fully supported in the record and in accord with the weight of the evidence.

> "XXXIX
>
> "Defendants' accused apparatus does not have a conveyor type table or its equivalent. It employs a stationary plate between the infeed and outfeed pinch rolls. The power to move sheets of veneer over and across the plate is supplied by the pinch rolls.
>
> "XL
>
> "Defendants' apparatus does not have a conveyor type table or the equivalent thereof, and therefore does not infringe Claims 3, 5 and 7 of the patent in suit."[1]

Construction and Operation of the Patented and Accused Machines

We should first briefly review the construction and operation of the Parker patented machine and the Jeddeloh machine, because plaintiff's discussion[2] ignores certain portions of the Parker patent and reads into it meanings not there present.

The disclosure of the Parker patent is for material handling apparatus in which the preferred embodiment (Figs. 1-8) is made up of *three* units, namely feed end unit C, floating conveyor table D, and discharge end unit E.

Claims 3, 5 and 7 are obviously restricted to the preferred embodiment shown in Figs. 1-8 because only that

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[1] III. 22.

[2] Opening Brief of Cross Appellant and Appellee (hereinafter referred to as X App. Opg. Br.), pp. 12-18, 31-36.

embodiment discloses separate feed and discharge units and a conveyor table, as required by the claims. Fig. 3 of the Parker patent best shows the feed and discharge end units each comprising distinctly separate upstanding frames at opposite ends of the apparatus and having a vertically movable assembly including pinch rolls mounted in each frame.

In the preferred embodiment of Parker the only way in which the machine will operate is to provide a floating conveyor table D spanning the space between the two frames of units C and E which transports sheets from the infeed rolls in unit C to the outfeed rolls in unit E. There is no suggestion in the Parker patent, except that made by the addition of the words "*or guide*" to the specification of the reissue[3] which we will discuss later, that conveyor table D comprises other than power driven endless belts for carrying sheet material. Concededly chains or the like could be substituted for the belts, but there must be some sort of power driven conveyor mechanism separate from the feed rolls. Table D is described as:

> "The floating conveyor table D comprises a plurality of belts 120 encircling rolls 121, 122 at opposite ends of the table. The roll 121 adjacent to the in-feed unit C is rotatably supported to the lower end of levers 123, one located at each end of the roll, by shaft-like extensions 124 on the roll proper. The upper ends of the levers 123 are pivotally connected to projections 125 on opposite plates 52 of the vertically movable assembly of the feed end unit C."[4]

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[3] Col. 2, l. 40.
[4] Col. 4, ll. 13-21.

Table D is referred to as being "floating" because it is pivotally connected to the infeed end by levers 123 and projections 125 so that as the table is moved up and down it may accommodate to the varying distances between the infeed pinch rolls and the outfeed pinch rolls as their respective movable assemblies are moved up and down.

> "The motor 62′ drives the belts 120 through the roll 121 [should be 122] and the construction is such that a sheet of veneer fed to the floating conveyor table D by the pinch rolls 34, 35 will be moved along the table by the belts 120 and discharged by the pinch rolls 122, 35′ upon one of the decks 10, 11, 12, or 13 of the in-feed end of the veneer dryer A."[5]
>
> "Simultaneously with the movement of the upper roll 35 into engagement with the veneer therethrough, the stop 36 is raised allowing the sheet of veneer to be fed by the pinch rolls onto the belts 120 of the floating conveyor table D."[6]

While there is nothing said in the Parker patent concerning the distance between the infeed unit C and outfeed unit E, or the length of the conveyor table D, it is clear from the testimony that in machines built according to the patent the conveyor was about 13′ or 14′ long, which is longer than sheets of veneer which range between 4′ and 12′, the most common lengths being 8′ and 10′. The patented machine was known as a "long tipple feeder" which referred to the length of the conveyor.[7]

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[5] Col. 4, l. 73-Col. 5, l. 3.
[6] Col. 6, ll. 66-70.
[7] I. 61, 64, 69, 71, 97; X App. Opg. Br. p. 32.

In the patented machine, conveyor table D must move sheets under power from the infeed rolls to the outfeed rolls because of the distance existing between the sets of rolls and because there is no alignment maintained between the nips of the infeed and the outfeed rolls.[8]

The accused machine, on the other hand, operates on a different principle and has a distinctly different type of construction. Considering first differences in construction, the infeed and outfeed pinch rolls are relatively closely spaced, about 3½ feet which is less than the length of veneer fed to the machine. These rolls are not mounted on separate vertically movable assemblies carried on separate spaced apart frames, but instead are part of a unitized tipple. This tipple is pivoted on a single main frame for pivotal movement about a horizontal axis which extends approximately through the nip or bite of the infeed rolls. Thus, when the tipple is swung to move the outfeed rolls up and down, the infeed rolls remain vertically stationary. The bite of the infeed rolls is aligned with the bite of the outfeed rolls and because of the unitized construction alignment of the bites is maintained throughout swinging of the tipple.[9]

The accused machine is referred to in Jeddeloh patent 2,876,009 as a "short loading conveyor mechanism," and some of the differences between it and the Parker type of machine are mentioned in the patent.[10] The arrangement of infeed and outfeed rolls and function of

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[8] I. 108.
[9] I. 120, 121.
[10] Col. 1, ll. 36-38.

plate 51 fixedly positioned between the sets of rolls are described as follows:

> "Rotatably mounted at either end of the subframe are a pair of smooth surfaced, steel rolls 47, 48. These rolls are power driven, and supply the motion for transporting veneer through the loading conveyor. Intermediate the rolls is a flat plate or table 51 secured to channel beams 43 and thereby integral with the subframe. Rolls 47, 48 are spaced apart a distance substantially less than the length of the veneer sheets handled (see Fig. 7), so that veneer on traveling through the loading conveyor mechanism always contacts a rotating roll 47, 48. Plate 51 merely guides the veneer, in the event that it is deformed, from one roll to the next."[11]

The differences in construction above mentioned result in a different principle of operation. Sheets of veneer are fed directly from the infeed pinch rolls to the outfeed pinch rolls because the bites of the two sets of rolls are always maintained in alignment. The sheets coming from the infeed rolls are always aimed at the bite of the outfeed rolls and plate 51 serves to guide deformed sheets. There is no provision for nor necessity for a conveying mechanism between the infeed and outfeed rolls because the sheets are always gripped by one or both sets of rolls. The unitized frame of the Jeddeloh machine eliminates the necessity of separate frames for supporting vertically movable assemblies in a feed end unit and in a discharge end unit. Further, sheets are always fed to the machine at a fixed convenient elevation because the infeed rolls are vertically stationary. When the Jed-

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[11] Col. 4, ll. 9-20.

deloh machine is used with a separate hoist or elevator in front of the machine the operator independently adjusts the elevator to maintain alignment between the top of the stack of veneer sheets and the infeed rolls. In the Parker machine the operator must periodically bend over or reach up to feed the machine depending upon the height of the veneer stack and position of the infeed rolls.

Plaintiff, in the appendix to its opening brief, has prepared two sketches supposedly illustrating the two machines. These sketches are not completely in accord with the facts.

In the sketch of the Jeddeloh apparatus the top of plate 51 is shown in alignment with the bite of the infeed rolls so that sheets will immediately engage and slide over it. As stated in the Jeddeloh patent and shown in its Fig. 5, plate 51 acts as a guide for deformed veneer and its top is somewhat below the bite of the rolls.

In the Parker apparatus sketch a greatly shortened conveyor table has been substituted for that of the patent in order to suggest infeed and outfeed rolls separated from each other the same distance as those of the Jeddeloh machine. The sketch is not in accordance with the teachings of the Parker patent and such a machine has never existed and would not function.

Mr. Schulein, defendants' expert, testified that if the conveyor-type table of the patented machine were shortened to approximately the distance between the infeed and outfeed rolls in the accused machine, the patented machine would not operate satisfactorily. He said:

"Q. It covered that range. Now, supposing one

Mr. Kolisch: Yes.

(Witness marks on exhibit.)

The Court: Where is 136?

Mr. Kolisch: 136 is this one (presenting document).

The Witness: In that type of an operation the bite of the rolls, feed rolls and discharge rolls, is always hozizontal, but since they are not always at the same level when they are in the central position your feed rolls are directing the sheets directly to the discharge rolls; but when they are in the upper position or in the lower position or in any position except the central one you can see the feed rolls do not direct the sheet directly towards the discharge rolls.

The Court: Would you say that would be quite a material variance between the Jeddeloh feeder and the Parker feeder?

The Witness: I would say—

The Court: Is that a significant difference?

The Witness: It is significant in that it enables Jeddeloh to operate with a short distance between the rolls and with the absence of a conveyor table to take the material off.

The Court: In your opinion, would the Jeddeloh rolls be encompassed within the disclosures of the Parker Patent as to the position of the rolls?

The Witness: If we are talking as to the Parker Patent, your Honor, of the vertically movable rolls, then I say that the Jeddeloh rolls are not within that scope. The Parker Patent rolls are vertically movable rolls.

The Court: And the Jeddeloh rolls are not vertically movable?

The Witness: The infeed end of the rolls are not vertically movable, your Honor. The exit rolls are.

You see, in the Jeddeloh machine everything pivots about the center point of the infeed rolls. If you look at DX-139 right where the sheet comes into the roll it appears there as a line and a circle. That is the pivot point about which the whole tipple bends, pivots. That point is fixed above the ground. It is not vertically movable."[14]

The plywood industry recognized the difference between the patented and the accused machines as did plaintiff itself which copied the accused machine and came out with a new model feeder. Plaintiff's president, Mr. Milburn, testified:

"Q. (By Mr. Kolisch): You came out with a Model 58 feeder which you called the Model 58 short tipple feeder; is that correct? Coe came out with that?

A. We called it a Model 58 feeder, yes.

Q. Was it correct that you came out with that to be competitive with the Jeddeloh machine?

A. Yes, to a degree; and can I explain, if I may?

Q. Yes, go ahead.

A. The Jeddeloh machine had a somewhat different appearance. The talk in the industry was that here was something new. We didn't think it was new; we still do not, but many people in the industry always flock to buy something which is, at least looks, new, and we felt, yes, we should have something which was competitive, but we still would continue to make our feeder as we had already made it as well.

Q. Am I correct in saying that you came out with the short-tipple feeder that, let us say, looks very much and operates quite similarly to the Jed-

[14] I. 178-180.

deloh feeder?

A. That's right.

Q. And that you filed patent applications on that feeder, also? A. That's right.

Q. These are Defendants' Exhibits 130 and 131. I will ask you to identify if that is the Model 58 feeder about which you are testifying?

A. Yes; that's right; that is correct."[15]

In *Bacon American Corp.* v. *Super Mold Corp. of Cal.,* D.C. N.D. Cal., 1964, 229 F. Supp. 998, the court pointed to the significance of a patent owner's change of construction after the defendant came on the market with his machine and said at 1003:

> "The record reflects that almost immediately after the accused device for removing the connected molds from the press apparatus was introduced by the defendant the plaintiff not only amended its patent to include the allegedly broader claims set forth in 1 and 7 of its patent, but in addition it converted its own machine to employ the principles of the accused device. Although the above would not be enough in itself to demonstrate noninfringement it is, nevertheless, strong evidence of the superiority of the accused method over the patented method, and is evidence that the change was neither unimportant nor unsubstantial. It demonstrates that the change added something that at least the plaintiff considered to be important to the art."

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[15] I. 147, 148.

The Accused Machine is Not a Multiple Unit Type Of Apparatus as Required by Claims 3, 5 and 7

Claim 3 of the Parker patent recites a "feed end unit" which is specified as comprising "a frame and a pair of pinch rolls." Also recited is a "conveyor type table" with its feed end adjacent to the pinch rolls. Additionally, there is recited a "discharge end unit" which is specified as comprising still another "frame" and a vertically movable assembly. An end of the conveyor type table is recited as connected to the vertically movable assembly of the discharge end unit.

The foregoing group of elements when construed in the light of the disclosure of the Parker patent covers a machine such as shown in Fig. 3 of the patent, with separate feed and discharge end units, each comprising a distinct frame for its units. Unlike the structure recited in the claim, the Jeddeloh apparatus has no discharge end unit with frame which is separate from a feed end unit frame. With the unitized tipple construction contemplated by Jeddeloh, the need for a separate frame supporting a movable assembly in a discharge end unit is eliminated.

Claims 5 and 7 contain limitations similar to those discussed in connection with claim 3. The claims are additionally distinguishable by their calling for a vertically movable assembly for the feed end unit and its frame.

That claims 3, 5 and 7 call for a multiple unit machine unlike the accused is emphasized by the disclosure in the Parker patent concerning the embodiment of Fig. 9. That embodiment is stated as comprising a con-

struction in which the floating table D and the discharge end unit E are omitted and the feed end unit C and stacks of veneer are mounted on a large elevator in front of the veneer dryer decks.[16]

The Accused Machine Has no Conveyor-Type Table As Required by Claims 3, 5 and 7

The Parker machine called for by claims 3, 5 and 7 includes, as already indicated, a long conveyor table with power driven belts thereon spanning the distance between separate infeed and discharge end units. The usual veneer sheets are shorter than the length of the tipple, and with the requirement that during certain phases of feeding sheets they be moved uphill from the infeed end to the outfed end, the conveyor type table of necessity includes means for powering the veneer in its travel. Mr. Miles, plaintiff's expert, recognized on two different occasions the necessity for power in a conveyor table. In defining a conveyor table he said:

> "The Witness: A conveyor table can be defined as a surface or a chute or a plane which supports and transports, in some cases, material from one place to another. It performs a function of conveying. Now, actually, in all conveyors they constitute two parts. One is the power that is supplied to the movement of the material, and the second is the chute or table or guide or surface, anything that establishes the direction and elevation, the position of the material being conveyed."[17]

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[16] Col. 9, ll. 20-25.
[17] I. 73, 74.

Later, in answering a question from the Court, he said:

> "The Witness: That's right, and in conveying there are two things, the two elements of conveying are power has to be supplied from somewhere, and guiding and direction has to be supplied by some means. In this case the power is supplied by the rolls, and the proximity of the rolls makes it unnecessary to have any additional power."[18]

Claim 3, it will be noted, recites a "conveyor type table" in addition to a feed end unit comprising "a pair of pinch rolls." Following the definition of a conveyor given by Mr. Miles, in order for infringement to exist, the claim requires in addition to feed end unit pinch rolls (and any power they may provide), the presence of a conveyor type table, i.e., a structure providing (a) guiding and direction and (b) power. This is what exists in Parker's preferred embodiment, and not in the Jeddelloh machine which has only a static guide plate having no power function.

In the Parker reissue patent, the phrase *"or guide"* was added after the word "conveyor," in connection with the description of conveyor table D.[19] It is obvious and the testimony of Mr. Miles confirms that the addition of those words broadened the meaning of the patent because if table D can be simply a "guide" there is no requirement that it have any power function. As hereinafter brought out, the patent is invalid because it is a broadened reissue.

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[18] I. 80, 81.
[19] Col. 2, l. 40.

The Accused Machine Has no Equivalent To a Conveyor Table

In an attempt to obtain a broad range of equivalents, plaintiff states that the Parker patent is "a pioneer invention."[20] The District Judge made no such finding and significantly he made no new finding contrary to his earlier one that the Parker patent was entitled "to only a narrow range of equivalents."[21]

That Parker is not "a pioneer invention" is most clearly demonstrated by plaintiff's own appraisal of the situation. When plaintiff sought the reissue it admitted to the Patent Office that the broadest claims were invalid in view of the Streeter patent which showed everything except "pinch rolls." According to plaintiff then, all that Parker added to the old combination of sheet feeder elements were pinch rolls. In defendants' opening brief.[22] it was pointed out, that pinch rolls for feeding all types of sheet material were very old.

Even if Parker were a "pioneer invention" there would be no infringement because the accused machine as previously discussed in addition to being constructed differently, operates on a different principle. As was pointed out in *Graver Tank Co.* v. *Linde Air Prod. Co.*, 1949, 339 U.S. 605, 608, 609, 94 L. Ed. 1097:

> "The wholesome realism of this doctrine is not always applied in favor of a patentee but is sometimes used against him. Thus, where a device is so far changed in principle from a patented article that

[20] X App. Opg. Br. p. 36.
[21] I. 43.
[22] Pp. 24-29.

it performs the same or a similar function in a substantially different way, but nevertheless falls within the literal words of the claim, the doctrine of equivalents may be used to restrict the claim and defeat the patentee's action for infringement. Westinghouse v. Boyden Power Brake Co., 170 US 537, 568, 42 L ed 1136, 1137, 18 S Ct 707."

In *Westinghouse* v. *Boyden Power Brake Co.,* 1898, 170 U.S. 537, 569, 42 L. Ed. 1136, the court said:

"But, after all, even if the patent for a machine be a pioneer, the alleged infringer must have done something more than reach the same result. He must have reached it by substantially the same or similar means, or the rule that the function of a machine cannot be patented is of no practical value. To say that the patentee of a pioneer invention for a new mechanism is entitled to every mechanical device which produces the same result is to hold, in other language, that he is entitled to patent his function. Mere variations of form may be disregarded, but the substance of the invention must be there. As was said in Burr v. Duryee, 68 U.S. 1 Wall. 531, 573, an infringement 'is a copy of the thing described in the specification of the patentee, either without variation, or with such variations as are consistent with its being in substance the same thing. If the invention of the patentee be a machine, it will be infringed by a machine which incorporates in its structure and operation the substance of the invention; that is, by an arrangement of mechanism which performs the same service or produces the same effect in the same way, or substantially the same way.' 'That two machines produce the same effect will not justify the assertion that they

are substantially the same, or that the devices used by one are therefore mere equivalents for those of the other'."

The element in the accused machine which plaintiff seeks to equate with Parker's conveyor is a plate 51. Contrary to plaintiff's statement that the only purpose of plate 51 in the Jedelloh machine "is to participate in some way in conveying material from the infeed rolls to the outfeed rolls,"[23] plate 51 acts as a guide and to keep refuse from falling in the machine. It is stationary and performs no function of transporting veneer between the infeed and outfeed rolls. Otto Jeddeloh testified:

"Q. Have you ever eliminated the plate and operated your machine?

A. Yes.

Q. What was the result of that?

A. Perfect success without this plate.

Q. You removed the plate, and the machine operated satisfactorily without the plate?

A. Yes, it does.

Q. What is the function or purpose of the plate?

A. It is merely a, somewhat of a guide for a cracked piece or a splintered piece to guide it into this portion and also to keep any trash from building up under the machine, to keep it from going through the dryer; in other words, more or less self-cleaning.

The Court: Do you have any machines operating without that table?

The Witness: No, we do not, but we have proved it in our own shop."[24]

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[23] X App. Opg. Br. p. 32.
[24] I. 119.

Mr. Miles, plaintiff's expert who testified concerning the operation of plate 51 in the accused machine admitted that he really didn't know whether or not the accused machine would operate without plate 51 because he had never tried it.[25]

Plaintiff's Ambivalence With Respect to "Guide"

Admittedly plate 51 in the accused machine acts as a "guide for a cracked piece or splintered piece" or deformed veneer and as Mr. Miles admitted:

> "Q. Now, as you read this claim 3, in order to read it on the accused machine, do you interpret a conveyor type table as a guide?
>
> A. Yes."[26]

In the reissue patent plaintiff broadened the meaning of "conveyor-type table" in the specification by addition of the words *"or guide"*[27] in order to cover the accused machine. There was no basis in the original disclosure of the patent for adding the word "guide" to describe the conveyor table and when plaintiff realized during the course of the trial that if the word "guide" remained in the reissue patent there was a clear case of enlarging the scope of the claims,[28] plaintiff expressly disavowed the word "guide" in interpreting the reissue. The District Judge erroneously permitted plaintiff to do so and held that the case would stand or fall on the lan-

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[25] I. 106.

[26] I. 106.

[27] Col. 2, l. 40.

[28] 35 U.S.C. § 251 provides in pertinent part:

> "No reissued patent shall be granted enlarging the scope of the claims of the original patent unless applied for within two years from the grant of the original patent."

guage of the original specification. The following colloquies took place with respect thereto:

> "Mr. Kolisch: He changed the specification. He put the words 'or guide' in.
>
> "Now, if he reads conveyor table, if he is interpreting those claims in the light of the new specification, as I think he must since the old specification is no longer in existence; the old specification is gone, it has been surrendered —
>
> "The Court: Don't argue that so much. Just ask you, 'Are you relying on the new specifications or the old specifications?'
>
> "Mr. Kolisch: He has no choice.
>
> "Mr. Krause: As far as we are concerned, we are relying upon the old language in the specification.
>
> "The Court: You are omitting the word 'guide'?
>
> "Mr. Krause: '——— or guide'. That doesn't mean that it is out, your Honor. It is in. Conveyor table is in there. The word 'guide' is not to be considered as far as we are concerned. We are prepared to state ——."[29]
>
> "The Court: I am going to rule now that we will not look to the new claims in the reissued patent since they are not claims upon which action has been instituted and that the original specifications will be looked at to determine validity and that this case stands or falls on the question of the original specifications and the original claims."[30]
>
> "The Court: I am going to segregate that issue, but we are going to go now on the original claims and the original specifications, and, to the extent that the word 'guide' may enlarge upon the mean-

[29] I. 223, 224.
[30] I. 228.

> ing of the other words used in the original patent, I am going to hold that no interpretation of the word 'guide' shall be used in order to construe that original specification."[31]

Plaintiff has once again changed its position and is now in effect relying on the word "guide" in construing the reissue patent so as to cover the accused machine. In the discussion appearing under the heading "Comparison of Accused and Patented Apparatus"[32] the operation of the conveyor table in the patented machine is made to sound as if it were merely guiding veneer from the infeed rolls to the outfeed rolls. Likewise in describing the operation of the accused machine, the guiding function of the plate between the infeed and outfeed rolls is stressed. On page 14 of plaintiff's brief the following appears:

> "Both apparatuses have tables interposed between the feed rolls and the outfield [sic] rolls for supporting and directing the veneer in its travel from the infeed to the outfeed rolls. . .
>
> "Both apparatuses have tables for performing the same functions. In both devices the tables are provided for supporting and directing the veneer in its travel from the infeed to the outfeed rolls."

Plaintiff has described the functions of both tables as "guides" without ever using the word. Plaintiff must resort to such language in an attempt to make out a case of infringement.

We submit that the District Judge erred as a mat-

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[31] I. 228, 229.
[32] X App. Opg. Br. pp. 12-14.

ter of law when he held that plaintiff could disavow the word "guide" and rely only on the original specification of the Parker patent in which that word did not appear. The reissue statutes, 35 U.S.C. §§ 251, 252, specify that a reissue does not take effect until "surrender of the original patent" and as stated by plaintiff, in order to obtain the reissue "the Parker patent was surrendered."[33]

The language of 35 U.S.C. § 252 concerning surrender of the original patent not affecting an action in which the claims of the original and reissue patents are identical on which the District Judge appeared to have relied[34] is not in point. 35 U.S.C. § 251 provides that the original patent must be surrendered in order to obtain the reissue and the grant of the reissue extinguishes the original patent. As the Court said in *Peck* v. *Collins* 1881, 103 U.S. 660, 26 L. Ed. 512, at 514:

> "Since the decision of this case, it has been uniformly held that if a re-issue is granted, the patentee has no rights except such as grow out of the re-issued patent. He has none under the original. That is extinguished.
>
> * * * * *
>
> "Surrender of the patent was an abandonment of it, and the applicant for re-issue took upon himself the risk of getting a re-issue, or of losing all."

The sole question is whether in view of the fact that plaintiff altered the specification of the reissue so that claims 3, 5 and 7 would read on the accused machine,

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[33] X App. Opg. Br. p. 3.
[34] I. 226, 227.

that alteration can be ignored and the claims read purely in the light of the original specification. Defendants submit that that is not possible in view of the extinction of the original patent.

Since claims of a patent "are always to be read or interpreted in the light of its specifications"[35] and the only specification at the time of the trial was the reissued and altered specification containing the words "conveyor table *or guide*", the claims are invalid for broadening because "guide" is obviously much broader than conveyor table. The word "guide" also introduced new matter into the specification which invalidated the patent as discussed on pages 57, 58 of Opening Brief for Appellant and Cross-Appellees.

Plaintiff's reliance on *Hansen* v. *Colliver,* 9 Cir.., 1960, 282 F.2d 66, is further evidence that plaintiff has gone back to equating conveyor table and guide because in that case the Court held that a table could function as a guide. We agree. It is noteworthy that the following statement appears in the *Hansen* case at 68, 69:

> "Claim 1 does not prescribe that the rope shall be guided by any particular means or that the guide be of any prescribed shape or form. It appears to us that the limitation of claim 1 by the trial court to a tubular or enclosed guide is contrary to the well established rule of construction that a broad claim will not be construed to contain limitations expressed in the more narrow claims. Smith v. Snow, 1935, 294 U.S. 1, 55 S. Ct. 279,

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[35] *Schriber-Schroth* v. *Cleveland Trust Co.,* 1940, 311 U.S. 211, 218, 85 L. Ed. 132; *Kemart Corp.* v. *Printing Arts Research Laboratories,* 9 Cir., 1953, 201 F.2d 624.

79 L. Ed. 721; Stearns v. Tinker and Rasor, 9 Cir., 1957, 252 F.2d 589; Cameron Iron Works, Inc. v. Stekoll, 5 Cir., 1957, 242 F.2d 17; Great Lakes Equipment Co. v. Fluid Systems, Inc., 6 Cir., 1954, 217 F.2d 613."

The "veneer" limitation which appears in certain claims of the Parker patent but does not appear in claims 3, 5, 7 and 17 should not have been read into claims 3, 5, 7 and 17, by the District Court to distinguish from the prior art.[36]

DAMAGES

The parties stipulated after the second decison of the District Court that rather than go through an accounting to determine the question of damages (35 U.S.C. § 284) the Court could make an award based on what it found a reasonable royalty to be under the circumstances of this case. In view of that stipulation, plaintiff's discussion[37] concerning its alleged lost sales and profits is irrelevant. Under *Aro Mfg. Co.* v. *Convertible Top Co.,* 1964, 377 U.S. 476, 12 L. Ed. 2d 457, only damages suffered by the patent owner, not the infringer's profits, are recoverable. If there had been an accounting defendants would have had an opportunity of showing that plaintiff in fact suffered no damages. Plaintiff under the *Aro* doctrine might have recovered nothing if it turned out that plaintiff had made all the sales it could reasonably have been expected to make

[36] See discussion Opening Brief for Appellants and Cross Appellees, pp. 7, 23, 24.
[37] X App. Opg. Br. p. 45.

of its long tipple feeder and those who bought defendants' short tipple feeder did so because of the improvements in operation, size and cost made by defendants in their feeder.

The District Court found that there was no established royalty rate under the patent in suit.[38] That finding is correct because plaintiff was unable to show royalty payments under the patent "by such a number of persons as to indicate a general acquiesence in its reasonableness by those who have had occasion to use the invention. . . Royalties paid under threat of suit or in settlement of claims for past infringement cannot be taken as a standard to measure the value of the patent."[39]

The Court also said in the *Faulkner* case, supra at 639, with respect to its fixing a royalty rate:

> "The court should be conservative in fixing the amount, . . ." (Citing *Dunkley Co.* v. *Central California Canneries,* 9 Cir., 1925, 7 F.2d 972.)

The *Dunkley* case involved fruit processing machinery in which despite the fact that seventeen licenses post dating the infringement had been taken, the court held that they were "too few in number and too late in time to establish a market price for the license *as of the date of the infringements.*"[40] (Emphasis added)

In *Wallace & Tiernan Co.* v. *City of Syracuse,* 2

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[38] Finding LVII, III. 46, 47.

[39] *Faulkner* v. *Gibbs,* 9 Cir., 1952, 199 F.2d 635, 638.

[40] *Dunkley Co.* v. *Central California Canneries,* 9 Cir., 1925, 7 F.2d 972, 976.

Cir., 1930, 45 F.2d 693, which involved a water purifying process the court held that eight licenses in a period of three years were insufficient to establish a royalty rate.

In *United States National Bank* v. *Fabri-Valve Co.*, 9 Cir., 1956, 235 F.2d 565 validity of the patent was not in issue and exclusive licenses in Canada as well as the United States had been taken at a 5% rate by substantial companies. The Court said that there was an established royalty rate of 5% and, therefore, raised the district court's award.

Defendants submit that the royalty rate found by the court of $825.00 per machine was too high for the reasons advanced in their opening brief[41] and plaintiff's demand of a royalty of $1000.00 to $1200.00 per machine is completely unjustified.

Plaintiff's argument [42] that plaintiff granted four licenses under the patent is incorrect. There were no licenses granted or royalties received under the patent in suit.[43] In 1956, under the original patent a license was granted to American Manufacturing Company and another license to Moore Dry Kiln Co. A total of six machines, three by each company, were produced under those two licenses. The fact that plaintiff granted American Manufacturing a separate license for each of its three machines[44] really only means that it gave one li-

[41] Opening Brief for Appellants and Cross-Appellees pp. 64-70.
[42] X App. Opg. Br. p. 46.
[43] IV. 176.
[44] IV. 164.

cense three times to the same party and not three licenses as stated by plaintiff.[45] Plaintiff's patent expert, Mr. Smith, said that the royalty arrangement in the Moore license, whereby the rate was based on the licensor's selling price of the equipment rather than that of the licensee, was an unusual way of computing a royalty rate and that it was the only such royalty arrangement of which he had heard.[46]

Plaintiff urges what it terms to be "Additional facts to be considered in determining Coe's damages. . . ."[47] Again plaintiff ignores that damages in this case were not to be determined on whether or not Coe suffered any damages but the award was to be based purely on a reasonable royalty rate. Furthermore, it is not correct that there are only "500 veneer dryers capable of utilizing feeders of the type with which we are concerned here" because as Mr. Fred Jeddeloh testified, new veneer dryers which need feeders are continually being installed, particularly in the southeastern part of the United States, and the market for dryer feeders is by no means static.[48]

Referring to the testimony of Mr. Harold R. Evans, he said that he was friendly with both parties and counsel for both sides were informed that he was going to testify that in his opinion a royalty rate of 3% of the sales price of defendants' equipment was reasonable.[49]

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[45] X App. Opg. Br. p. 46.
[46] IV. 191.
[47] X App. Opg. Br. p. 48.
[48] IV. 245, 246.
[49] IV. 225, 226.

With respect to the royalty rate on the equipment which he negotiated at the rate of 10%, no such royalty rate was ever paid because it put the licensee in a non-competitive position and a lower royalty rate of about 3% was renegotiated.[50]

An important consideration in determining the royalty rate is the amount of engineering information and know how made available to the licensee and in the present case not only was there none but defendants made a contribution of their own to the art.[51]

Plaintiff Is Not Entitled to Interest From The Dates of the Respective Infringements

The general rule is that where an award for damages in a patent case is based on calculation of a reasonable royalty interest runs from the date that the damages are liquidated, and not from the date of infringement. *Tilghman* v. *Proctor*, 1888, 125 U.S. 136, 31 L. Ed. 664, stands squarely for that proposition where the court said, at 672:

> "If the question thus presented were a new one, it would require grave consideration. But by a uniform current of decisions of this court, beginning thirty years ago, the profits allowed in equity, for the injury that a patentee has sustained by the infringement of his patent, have been considered as a measure of unliquidated damages which, as a general rule, and in the absence of special circumstances, do not bear interest until after their amount has been judicially ascertained; and the

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[50] IV. 225, 226.
[51] IV. 218, 227, 236, 237.

provision introduced in the Patent Act of 1870, regulating the subject of profits and damages, made no mention of interest, and has not been understood to affect the rule as previously announced. [Citing Cases.] Nothing is shown to take this case out of the general rule. At the time of the infringement, the fundamental questions of the validity and extent of Tilghman's patent were in earnest controversy and of uncertain issue. Interest should therefore be allowed, as in Illinois Central Railroad v. Turrill, just cited, only from the day when the master's report was submitted to the court (which appears, by the terms of his report and of the decree below, to have been October 7, 1884), upon the amount shown to be due by that report and the accompanying evidence."

The excerpt from *Tilghman* case quoted by plaintiff[52] has to do with "an action at law" which is neither our case nor *Tilghman*.

Unless there are exceptional circumstances such as willful and wanton conduct, the rule of the *Tilghman* case is still the law. *Duplate Corp.* v. *Triplex Safety Glass Co.,* 1936, 298 U.S. 448, 459, 80 L. Ed. 1274.

Swan Carburetor Co. v. *Nash Motors Co.,* 4 Cir., 1943, 133 F.2d 562, cited by plaintiff,[53] stated the general rule of the *Tilghman* case in the portion quoted by plaintiff. In the *Swan* case the court said that where damages were determined on the basis of an *established* royalty, those damages might be considered to be liquidated and interest could run from the time when the

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[52] X App. Opg. Br. p. 50.
[53] X App. Opg. Br. p. 50.

royalties should have been paid. However, the court distinguished between that situation and one where a *reasonable* royalty had to be judicially determined in which circumstance interest runs only from the date of judicial determination. In the *Swan* case the court pointed out at 565 that "when the patent has created only a part of the profits, the plaintiff's recovery is limited thereto; and this rule applies whether the patent covers the whole or only a part of the infringing machine."

There are no exceptional circumstances which would take this case out of the general rule with respect to interest and damages and *the District Court found in its opinion that the infringement was not willful or wanton.*[54] The "special circumstances" plaintiff argues entitle it to interest from the date of each infringement, are not in accord with the facts."[55]

> 1. The inspiration for defendants' feeder was not plaintiff's feeder, but the request of a plywood producer that defendants "design and build for him a better veneer feeder than was commercially available."[56]
>
> 2. Defendants continued making their feeder because they have always believed that even if the Parker patent is for a patentable invention, defendants' feeder does not infringe.
>
> 3. Defendants, not plaintiff, first served the

[54] III. 10.
[55] X App. App. Opg. Br. p. 53.
[56] I. 113.

market for a short tipple feeder, and when plaintiff observed defendants' success, plaintiff copied defendants' feeder.[57]

4. The opinion of the Court of Appeals indicated question as to infringement of claim 17, but indicated nothing with respect to validity of the Parker reissue patent which defendants have always believed to be invalid.

5. Defendants' expert, Schulein, never indicated that, in his opinion, the Parker patent was for a patentable invention. He stated that his study went only to the question of infringement and that he had no opinion with respect to validity other than the presumption of validity which attaches to each patent upon issue.[58]

6. There is nothing in the record to indicate that defendants have deprived plaintiff of any sales. The evidence shows that throughout the period plaintiff has continued to sell its patented feeders for a total of two hundred and twenty five and had ten new feeders on order at the time of the hearing to determine a reasonable royalty rate.[59]

7. There is nothing in the record to show what others (Moore and Prentice) did with respect to feeders, much less that defendants' resistance to what they consider to be an unjustified attempt to put them out of business had any effect on others.

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[57] I. 147, 148.
[58] I. 298, 299, 301.
[59] IV. 173, 174.

Plaintiff Is Not Entitled to Any Exemplary Damages or Attorney Fees.

The award of increased damages and attorney fees[60] are discretionary with the trial judge who expressly denied plaintiff's requests.[61] There has been no abuse of discretion and therefore no reason to interfere with the trial judge's action.[62]

Plaintiff's reliance on *Russell Box Co.* v. *Grant Paper Box Co.,* 1 Cir., 1953, 203 F.2d 177, is misplaced because there the court of appeals affirmed an allowance by the district court of an increase in damages and counsel fees. The district court had found that defendant had been careless in construing its claim, "failed to preserve its records, for which it offered no excuse," and had "been dilatory in complying with an order of the master to produce" certain information, which, when it did produce was unsatisfactory.[63] The court went on to say:

> "We would certainly be loath to disturb a conclusion of the District Court in a matter so peculiarly within its competence as an increase in damages and an award of counsel fees in cases of this sort. . . ."[64]

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[60] 35 U.S.C. §§ 284, 285.

[61] Conclusions of Law X, XI, III. 25, 26.

[62] *Dubil* v. *Rayford Camp & Co.,* 9 Cir., 1950, 184 F.2d 899, 903; *Photochart* v. *Photo Patrol,* 9 Cir., 1951, 189 F.2d 625, 628; *Park-In-Theatres* v. *Perkins,* 9 Cir., 1951, 190 F.2d 137, 142.

[63] 203 F.2d at 181.

[64] 203 F.2d at 183.

CONCLUSION

Claims 3, 5 and 7 of the Parker reissue patent are not infringed by the accused machine. If the claims are construed solely in the light of the original Parker specification there is no infringement because Jeddeloh has no conveyor table and no separate feed and discharge end units. If the claims are construed in the light of the reissue specification they are invalid because they have been broadened and are not for the same invention as originally disclosed.

A reasonable royalty, if the Court ultimately holds that claim 17 is valid and infringed, should be no more than 3% of defendants' net selling price of the combination feeder and elevator held by the District Court to infringe the claim.

Interest should be allowed, if at all, only from the date of liquidation of damages which was stipulated to be August 16, 1965.

Plaintiff is not entitled to any exemplary damages or attorney fees.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with these rules.

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Attorney for Cross-Appellees
and Appellants.

No. 20662

United States
COURT OF APPEALS
for the Ninth Circuit

JEDDELOH BROTHERS SWEED MILLS, INC., et al.,
Appellants,

v.

COE MANUFACTURING COMPANY, a Corporation,
Appellee,

and

COE MANUFACTURING COMPANY, a Corporation,
Appellee and Cross-Appellant,

v.

JEDDELOH BROTHERS SWEED MILLS, INC., et al.,
Appellants and Cross-Appellees.

Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

ANSWERING BRIEF OF CROSS-APPELLANT AND APPELLEE

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ANSWERING BRIEF OF CROSS-APPELLANT AND APPELLEE

INTRODUCTION

This brief is directed to answering the contentions made in defendant's opening brief. The contentious statement of the case by defendants in their brief leaves

much to be desired. However, rather than lengthen this brief with a restatement, the Court is respectfully referred to plaintiff's opening brief for an accurate and complete statement of the facts.

SUMMARY OF ARGUMENT

1. The opinion of the plywood industry that feeder could not be developed and long effort by Parker and coworkers before successful feeder of patent was developed show that apparatus of patent in suit was not obvious "to a person having ordinary skill in the art to which it pertains" (35 U.S.C. 103) and invention meets tests of Supreme Court decisions.

2. Trial Court's findings that claims in suit are valid are supported by substantial evidence and there is nothing in record to indicate they are erroneous in any respect.

3. Parker provided a new and novel apparatus, not obvious from the prior art, and which apparatus is patentable although made up of old elements.

4. Parker's contribution was not in selection or development of any one element but in provision of combination of elements necessary to feed veneer from stack to decks of dryer. Claims including such elements do not "overclaim" invention but are directed squarely to it.

5. Defendants' apparatus includes and requires vertically movable elevatable platform for veneer stacks. Such platform is a vertically movable assembly, as

called for in claim 17, and the full equivalent of the illustrated embodiment of the invention and claim 17 is infringed.

6. Defendants' vertical fixing of infeed rolls and use of elevatable platform rather than elevatable rolls and a fixed platform is at best a mere reversal of parts that does not avoid infringement.

7. No amendments were made to claim 17 to secure its allowance, nor were any arguments advanced to secure its allowance that narrow the scope of the claim in any way.

8. Under 35 U.S.C. 252 the validity of claims in suit could not have been affected by the circumstances of the reissue of the patent in suit. The public interest did not require a determination of the validity of the claims added by the reissue and the Trial Court properly declined to examine the circumstances of the reissue.

9. The question of the propriety of the reissuance of the patent was segregated by the trial judge and there is no evidence in the record to support defendants' contention reissue was improperly granted.

10. The damages awarded plaintiff is less than a reasonable royalty and insufficient to compensate plaintiff for its damages as required under 35 U.S.C. 284. Plaintiff should have been awarded a royalty of $1,000.00 to $1,200.00 for each infringing apparatus.

11. The individual defendants, Otto and Fred Jeddeloh, owned eighty percent of the stock in the defendant corporation, designed the infringing apparatus, di-

rected the activities of the defendant corporation and actively participated in the sale of the infringing apparatus. They fully and knowingly participated in the infringing activities and the judgment properly should run against them as well as defendant corporation.

RECENT SUPREME COURT DECISIONS REAFFIRM PARKER PATENT IS DRAWN TO A VALID COMBINATION

The decision of the U. S. Supreme Court in *U. S.* v. *Adams et al,* decided February 21, 1966, — U.S. —, 34 L. Week 4132, 148 USPQ 479, is a complete answer, as hereinafter pointed out, to defendants' contention that the Parker combination was not a patentable one.

Defendants do not contend that Parker's combination was not novel, nor that it was not useful, but they say it was obvious. The evidence showed that competent engineers had for years been giving thought and effort to produce a veneer feeder, but all their efforts failed including numerous earlier efforts made by Parker who produced the combination of elements that resulted in the feeder that first successfully fed green veneer into dryers. Not only had no one previously produced a successful feeder, but when Parker attempted to try out his feeder in a plywood mill he was refused permission by the mill operators. They were convinced that no mechanical feeder could be built to handle veneer because of its unusual qualities as compared to other sheet material.

U. S. v. *Adams, et al, supra,* affirmed a holding of the Court of Claims that Adams patent No. 2,332,210, relating to a wet battery was valid and infringed. Each of the

elements of the battery were well known in the prior art. The Supreme Court affirmed, nevertheless, that Adams' combination of old elements was patentable, thus, again reaffirming its previous rulings, and those of this circuit, that combinations of old elements may be patentable.

The Adams battery utilized one electrode of magnesium and the other of cuprous chloride. Both magnesium and cuprous chloride had previously been used as battery electrodes but never together. The Supreme Court said that "wholly unexpectedly" the combination showed various valuable advantages over combinations previously used in batteries.

The infringer contended that the combination "represented either no change or an insignificant change as compared to the prior art battery designs." The Supreme Court, however, did not agree. The combination was novel and useful and the Court concluded that it was not obvious to a person reasonably skilled in the art notwithstanding that magnesium and cuprous chloride were well known as electrode materials at the time Adams made his invention.

Parker, like Adams, put together a number of elements old in the art but which had never been combined in the manner in which Parker combined them. There was nothing to indicate that the combination, as Parker designed it, would have the new and nonobvious properties of the Parker device.

Parker had been experimenting for years in an endeavor to produce a machine that would mechanically and reliably load veneer into the decks of a dryer. No

machine had been developed that would load green veneer although there were well known in the art machines that loaded sheets having qualities unlike those of green veneer. Sheets of green veneer are not of uniform size, shape, thickness or flexibility and present problems in feeding that had at no time been answered in the prior art.

When Parker's patented apparatus was first offered to the industry, no one in the industry would permit the installation of the feeder in any of their plants. The feeder laid in storage in Portland for four years. Permission was finally obtained to install the machine in a plywood factory to feed a dryer that was not needed in production at the time.

The similarity of this to the development of the Adams' invention, is striking. The Supreme Court describes Adams' experimentations as follows:

> "For several years prior to filing his application for the patent, Adams had worked in his home experimenting on the development of a wet battery. He found that when cuprous chloride and magnesium were used as electrodes in an electrolyte of either plain water or salt water that an improved battery resulted."

Beginning in the 1930's Parker and other Coe engineers worked on the problem of feeding veneer mechanically. They designed and built several trial machines in Coe's shops and finally in 1939 and 1940 Coe shipped three veneer feeders to Oregon for installation in plywood mills. Though Parker and other Coe engineers "made many diligent efforts to make them work . . . but after

spending much engineering talent and time and materials on them they were finally judged unsuccessful, even though the plant owners wanted them to work just as badly as we did, and we finally wound up by selling them for junk. They wouldn't work." (Tr. Vol. I 306)

When Parker's patented feeder was finally installed in a plywood mill it proved to be able to handle veneer with its unusual qualities of varying width, thinness, lightness, flexibility and tendency to curl. Witnesses to the performance of the machine testified that they were amazed and surprised.

In the *Adams* case noted experts believed the battery was not workable and had no utility. The same was true as to the Parker combination—no one familiar with the handling of veneer would permit the feeder to be installed in his plant.

Concurrently with its decision in *U. S.* v. *Adams et al*, supra, the Supreme Court handed down decisions concerning two other patents which it held to be invalid. These decisions were embodied in a single opinion, *Graham et al* v. *John Deere Co. et al; Calmar, Inc.* v. *Cook Chemical Co.; Colgate-Palmolive Co.* v. *Cook Chemical Co.*, — U.S. —, 34 L. Week 4119, 148 USPQ 459.

In the *Graham* case, Graham patent No. 2,627,798 under consideration was an improvement on an earlier Graham patent No. 2,493,811. Both patents related to manner of connecting a plow shank to a hinge plate which plate allowed the plow shank to push upwards when it hit obstructions in the soil being plowed. The

patents differed merely in the manner in which the plow shanks were connected to the hinge plates.

Scoggin patent No. 2,870,843 considered in the *Calmar* and *Colgate* cases related to the rearrangement of a seal in an old finger operated pump sprayer used as dispenser for containers packaging liquid products.

Graham patent 2,627,798 and Scoggin patent No. 2,820,943 were each held to be invalid on the ground that the improvements of the patents over the earlier pertinent art were obvious to a person reasonably skilled in that art. In each case, the alleged invention resided in small mechanical differences or improvements in prior devices intended for identical purposes. In neither case was a new combination presented to obtain a new and different result never previously obtained, as was the situation in *U. S. Adams et al, supra,* where a new type battery was provided, or here, where a new apparatus was provided that in the words of the Trial Court "was a new method of feeding sheets of green veneer into a dryer." (Finding of Fact XXXI)

RECORD SUPPORTS DISTRICT COURT'S FINDINGS THAT PARKER PATENT IS VALID

The District Court held that claims 3, 5, 7 and 17 here in issue cover combinations of old elements which produce a new, unobvious result and that the claims are valid. Defendants contend that Findings Nos. XXX and XXXI are clearly erroneous. They, however, do not allege error in the Court's basic findings respecting what the prior art was and what Parker did to improve it and which basic

findings amply support the ultimate findings of the District Court that the claimed combination accomplished a new result and was not obvious to a person skilled in the prior art.

These findings are adequately supported by the evidence. As has been previously pointed out, the development of the Parker feeder was preceded by years of unsuccessful efforts to develop an apparatus which would mechanically feed green veneer to a multiple deck dryer. When Parker's feeder was first offered to the industry, even though there was a need for such an apparatus, no one would permit its installation in a plywood mill because of the prevailing opinion that veneer because of its peculiar characteristics could not be mechanically fed. When Coe succeeded in having the feeder installed its performance amazed everyone in the industry and hand-feeding of veneer to dryers was virtually eliminated at the time of the trial. Until the accused apparatus appeared on the market some ten years subsequent to Coe's first introduction of the Parker feeder all mechanical feeders used were either manufactured by Coe or under license from Coe.

The evidence that the combination was not obvious was conclusive and none of the witnesses, including defendants' witnesses, even intimated that the combination was obvious.

Otto Jeddeloh, who designed the accused apparatus, expressed no view that the Parker patent did not involve inventon, and on the contrary he testified:

"Q. Now what I want is your view. What is

the difference between your machine and the Coe machine that makes yours an invention and prevents theirs from being an invention.

A. I don't make such a statement." (PX 55, p. 110)

* * * * *

"Q. You claim that there was novelty and invention about your machine, don't you?

A. Yes.

Q. You claimed a patent on the basis of there being novelty and invention, didn't you?

A. Yes.

Q. Now, do you say that there is no novelty and invention so far as the Coe machine is concerned?

A. No, I wouldn't say that.

Q. You have not made such a contention?

A. No.

Q. Your position is that your machine does not infringe the patent here issued to Parker?

A. Right." (PX 55, p. 100)

Defendants' expert, Schulein, who made a study of the patent in suit and the 22 prior art patents introduced into evidence by defendants as anticipating the Parker patent, expressed his opinion of validity as follows:

> "My present opinion is that it would be presumptively valid because it was issued, but I would not go further than that." (Tr. Vol. I 299)

Plaintiff's expert, Miles, an engineer with long experience in the plywood industry, testified that the designing of the patented machine was more than would be ex-

pected of a person skilled in the art (Tr. Vol. I, 285), and that if he had been present to witness the first feeding of veneer by the patented apparatus, he would have been "amazed and surprised" (Tr. Vol. I, 285).

Frank W. Milbourn, Jr., President of Coe, who was present when the patented feeder first went into operation testified:

> "Q. Can you tell us anything about after your feeder was working at Crescent City how it was regarded by the supervising personnel?
>
> A. Well, it was regarded as an amazing and successful development." (Tr. Vol I 308)

Fred Fields, a witness for plaintiff, testified:

> "Q. How long was it tested before the purchaser was obliged to pay for it?
>
> A. The machine was installed on a trial basis, as mentioned before, and they had allowed us a 60-day period within which to obtain satisfactory performance, and if the performance was proven in that period they had agreed to pay for it. Had it not been proven in that period, we would have had to remove it."
>
> * * * * *
>
> "Q. With respect to the operation of this No. 48 feeder, can you tell us how did it appear to you as to whether it was a satisfactory solution or not?
>
> A. I was frankly amazed, and during the course of the installation most of the people involved were familiar with plywood operations as they had been employed by other manufacturers of plywood before, and the general concept was that they did not believe that it would work, but after it was put into operation everyone was amazed." (Tr. Vol. I 314).

In attempting to show that the findings are not supported by the evidence defendants erroneously imply that Parker considered his invention was in "the discovery that pinch rolls would feed veneer." (DB pg. 20). Granted that Parker considered use of pinch rolls an important part of his development, nevertheless they were only a part of his invention as testified to by Mr. Milbourn:

> " 'A. That idea basically, the one thing that had to be proved to see *if other aspects should be developed,* was whether or not a pair of pinch rolls would take hold of this sheet and propel it in a forward direction or would take hold of a series of sheets and propel it when only the entering edge of the sheet was pushed into the roller." (Tr. Vol. I, 143) (Emphasis ours)
>
> " 'A. In this matter of the pinch rolls being the heart of the feeder, such is not precisely the case, and, as I started to say, we knew that we had used tipples in feeding multi-deck dryers of plasterboard and fiberboard nature, and we also knew that you could pull sheets off a pile, to do it by hand. We also knew in plasterboard and fiberboard feeders that if the sheets were coming one at a time that we could feed them very successfully.
>
> The thing we did not know was how to get that veneer, or I should say Mr. Parker did not know or nobody knew at that time, was how to get that veneer off of the pile and maintain stack alignment and still keep the opposite end of the device lined up with the decks of the dryer. In other words, the most unknown factor was whether the pinch rolls would successfully propel the veneer. Granted

> that pinch rolls in themselves were not new, but, to the best of our knowledge, no one had used pinch rolls to propel veneer by sticking only the entering edge of the veneer into the pinch rolls, but *it is the combination of the intermittently operating pinch rolls, combined with the means of maintaining the stack height of the infeed end and maintaining the outfeed end of the proper relationship with the decks of a multi-deck dryer that actually comprise the invention.*" (Tr. Vol. I, 145) (Emphasis ours)

COMBINATIONS OF OLD ELEMENTS ARE PATENTABLE

Defendants concede that the elements were never combined in the prior art as Parker combined them. Parker provided a new and novel apparatus, not obvious from the prior art, and one producing a new result, that is, one never before achieved. That being the case, invention is present whether the elements are old or new.

U. S. v. *Adams et al,* supra, does not establish any new law, merely reaffirms the prior law. Robinson, in § 155 of his Law of Patents for Useful Inventions, states as follows:

> "While every element remains a unit, retaining its own individuality and identity as a complete and operative means, their combination embodies an entirely new idea of means, and thus becomes another unit, whose essential attributes depend on the cooperative union of the elements of which it is composed.
>
> "*Such a combination is a different invention* from the elements themselves, whether considered in their separate or their aggregated state, the meth-

od of their co-operation in the combination being the result of the inventive act.

"Whether the elements are new or old, and whether they co-act successfully or simultaneously is of no importance.

"To unite them in a new means by the exercise of inventive skill is invention, and renders the combination, as an entirety, the subject matter of a patent." (Emphasis ours)

The Supreme Court in *Leeds & Catlin Co.* v. *Victor Talking Machine Co.* (1909), 213 US 301, at page 318, defined a combination as follows:

"A combination is a union of elements which may be partly old and partly new, or wholly old or wholly new. But, whether new or old, the combination is a means — an invention — distinct from them. They, if new, may be inventions and the proper subjects of patents, or they may be covered by claims in the same patent with the combination.

"But whether put in the same patent with the combination or made the subjects of separate patents, they are not identical with the combination. To become that they must be united under the same co-operative law. Certainly, one element is not the combination, nor, in any proper sense, can it be regarded as a substantive part of the invention represented by the combination, and it can make no difference whether the element was always free or becomes free by the expiration of a prior patent, foreign or domestic. In *making a combination, an inventor has the whole field of mechanics to draw from.* This view is in accordance with the principals of the patent laws. It is in accordance with the pol-

icy of § 4887 of the Revised Statutes, which is urged against it." (Emphasis ours)

Judge Learned Hand remarked in *Reiner, et al.* v. *The I. Leon Co., Inc.,* 285 F.2d 501, 128 USPQ 25 (CA 2, 1960):

> ". . . It is idle to say that combinations of old elements cannot be inventions; substantially every invention is for such a 'combination'; that is to say, it consists of former elements in a new assemblage. All the constituents may be old, if their new concourse would 'not have been obvious at the time the invention was made to a person having ordinary skill in the art.' (§ 103, Title 35)."

The situation here is similar to that present in *Kammerer Corp.* v. *McCullough,* 59 F. Supp. 213, 215, 216, 50 USPQ 12 (DC S Cal, 1941), affirmed by this Court, 138 F2d 482, 59 USPQ 263, where Judge Yankwich finding the patent in suit valid said:

> ". . . while the elements of the combination may be old in the art, there is nothing in the prior art akin to the manner in which they are combined in this patent in order to produce a better result,—that is, a tool which, with great commercial success over a long period of years, achieved results not heretofore attainable by any prior device known to the art. This is invention over the prior art. (Citing cases)"

He went on to say:

> "It is true that the same expert claimed, and counsel for the defendants have argued, that, while these elments are not found in the same combination in prior patents, each of them can be found

> in one or another of the patents in the rich prior art in the field of tools for cutting and removing pipe from oil wells. But this fact does not stand in the way of validity.
>
> "For, it is a fundamental principle of the law of patents, declared by the Supreme Court in a leading case, dating back to 1878, that the separate presence of the elements of a combination in three or four other patents in the prior art does not preclude a finding of invention when these elements are so combined as to produce a new or better result. The case which I refer to is *Bates* v. *Coe,* 1878, 98 U.S. 31, 48".

This definition of invention was cited with approval by this court in *Coleman Co. Inc.* v. *Holly Mfg. Co.,* 233 F.2d 71, 109 USPQ 204 (1956).

Other decisions of this Court sustaining patents on new combinations of old elements include:

Ry-Lock Co. v. Sears, Roebuck & Co., 227 F2d 615, 107 USPQ 292 (1955).

Winslow Engineering Co. v. Smith, 223 F.2d 438, 106 USPQ 209 (1955).

Oxnard Canners, Inc. v. Bradley, 194 F.2d 655, 659, 93 USPQ 123 (1952).

The patents to Cross 640,638, Campbell 1,216,773 and Streeter 1,809,456 discussed by defendants in their brief can not be expected to teach the combination of the Parker invention for feeding veneer inasmuch as none of such patents was concerned with veneer feeding. They were all concerned with the feeding of paper, steel sheet and plasterboard, manufactured products having uniform charac-

teristics. Veneer is a unique material. Plaintiff's expert, Miles, testified as follows:

> "Well, in the first place, veneer is unlike many other materials that have been encountered in industry, and it is not a manufactured product. It is a forest product. Plasterboard, paper, sheetmetal and things, all those various materials, are of a known size, thickness, flatness, flexibility, and all the other characteristics of the materials are known and the products. In the case of plywood, it is relatively light and relatively thin. It constitutes in its green form, approximately half of its weight is water. It has a tendency to curl, and it is widely varying in any given load that is fed into a dryer, consisting of some of the sheets sideways to a full, a 14-foot width. They can vary all the way from 12 inches wide in each individual piece up to 50 inches wide whereby with the 50 inches it is known there would be three stacks of 50-inch-wide material. When you are running a lower-grade veneer which has been clipped into a known width, you may have as many as 15 or 20 sheets which have to be pushed up into a ready position. Obviously, the over-all problem of feeding means that you have to pre-assemble all of these sheets of veneer into a row, a kick-off point so to speak, so that when they are fed through they will wind up in the proper location in relation to the following sheet on each deck. The nature of any wood product has given a great many of us a lot of trouble and cause for a great deal of head-scratching in the years past." (Tr. Vol. I, 62-63)

The industry as a whole obviously shared the belief that veneer is a difficult material to handle as is evidenced by the fact it took four years for Coe to convince

someone to try the first feeder built under the Parker patent (Tr. Vol. I, 307-309).

The cases cited by defendants in support of their contention that Parker's combination was not patentable in fact support the Trial Court's conclusion that claims 3, 5, 7 and 17 are valid. In each of defendants' cases the alleged invention considered was a minor change in the construction of an existing apparatus which after the change performed no different function. In none of the cases was a new apparatus produced, that is, one which did something different than had been done before. The alleged inventions of defendants' cases were similar to the alleged inventions of the Graham and Scoggin patents considered in *Graham et al* v. *John Deere Co.; Calmar* v. *Cook Chemical Co.,* and *Colgate-Palmolive Co.* v. *Cook Chemical Co., supra.*

In *Photochart* v. *Photo Patrol,* 189 F.2d 625, 90 USPQ 46 (C.A. 9, 1951) this Court affirmed the judgment of the District Court holding invalid a patent in which the patentee merely changed the position of the slit in a prior slit camera used for photographing the finish of races. The Court, in finding no invention said:

> "Del Riccio has changed the position of one of these elements (the narrow slit) . . . in our view this variation of an old device is within the reasonable skill of one working in the art."

Thus, there was not present in the *Photochart* case an entirely new apparatus performing a different function as is present in the case at bar.

In *Himes* v. *Chadwick,* 199 F.2d 100, 95 USPQ 59

(C.A. 9, 1952), after a jury verdict in favor of plaintiff the Trial Court entered a judgment n.o.v. in favor of defendant. The patent involved a folding cardboard carton having flaps of a certain construction from four side walls. A prior patent to Berkowitz showed similar flaps but on only two side walls. The Trial Court held that it was not patentable to use Berkowitz' flaps on all four side walls since this was taught in an earlier British patent and this Court affirmed.

Water is raised in deep wells by installing a series of pumps one above the other. *Berkeley Pump* v. *Jacuzzi Bros.*, 214 F.2d 785, 102 USPQ 100 (C.A. 9, 1954) concerned such a pump. The case was tried before a jury and at the close of plaintiff's prima facie case the trial judge directed a verdict for defendant. This Court affirmed. An unpatented "Advance Pump" used a jet device in the well to raise the water at low pressure to the top of the well casing and a high speed centrifugal impeller or turbine pump at the top of the casing. The patentee simply substituted a conventional turbine pump to raise the water to the top of the well in place of the jet pump used in the "Advance Pump."

William T. Alvarado Sales Co. v. *Rubaloff,* 263 F.2d 926, 120 USPQ 355 (C.A. 9, 1959), concerned a patent on a supermarket check-out stand. The patentee used a turntable in place of a conveyor belt or a U-shaped pull frame. This Court affirmed the holding of the Trial Court that the substitution made by the patentee was not an inventive one.

A small mechanical change in collapsible baby strol-

lers was involved in *Welsh Co. of California* v. *Strolee of California, Inc.*, 313 F.2d 923, 136 USPQ 519 (C.A. 9, 1963). A particular type of toggle bar used in the patented device was old, and the Court held that there was no invention in using this particular toggle bar, "rather than any one of a dozen other means of stopping the pivotal movement."

Packwood v. *Briggs & Stratton Corp. et al,* 195 F.2d 971, 93 USPQ 274 (C.A. 3, 1952) was tried before a jury. The District Judge denied defendants' motion for a judgment n.o.v. while candidly stating his own convictions that the patent was invalid for lack of invention. The Court of Appeals reversed and held the patent invalid.

The patent covered the relocation or transfer of the screen of a power lawn mower which prevents the entrance of grass and other foreign matter into the intake of the air cooling system of the motor. The patentee connected the screen to the cam shaft so that it would rotate whereas in the prior art it was stationary having been connected to the fan casing.

Talon, Inc. v. *Union Slide Fastener, Inc.*, 266 F.2d 731, 121 USPQ 249 (C.A. 9, 1959) affirmed a judgment of the District Court holding invalid a patent covering a machine for manufacturing zippers. The asserted invention lay in an arrangement for keeping the zipper under control during manufacture. This Court's observation is as follows:

> "Control then is the essence of what Talon claims to be new and different about its patent.

> But at least one patent cited by Union, Sundback, patent No. 1,331,884, which preceded Silverman, combined in one machine both the production of the zipper element and its attachment to a tape and also kept the elements under control . . . possibly this does not give the complete control of Silverman, but it is control none the less."

Continental Connector Corporation v. *Houston Fearless Corporation,* 350 F.2d 183, 146 USPQ 630 (CA 9, 1965) wherein this Court affirmed the District Court, again involved the improvement of a single element in an otherwise old combination. The patent was directed to a connector or socket for receiving a printed circuit panelboard. Connecting sockets are old and the alleged improvement here resided solely in the configuration of a contact spring. The Court held that the substitution of one old spring for another was not patentable.

Canadian Ingersoll-Rand Co. v. *Peterson Products,* 350 F.2d 18, 146 USPQ 327 (CA 9, 1965) affirmed a judgment of the District Court (223 F. Supp. 803, 139 USPQ 61, D.C., N.D. Cal.) holding a patent invalid. That patent related to apparatus for spraying resin together with glass fibers to form a coating upon a suitable form or mold. The apparatus included two sprayers, one of which sprayed catalyzed resin, and the other of which sprayed a promoter resin in such a manner that they were mixed after spraying. A rotary cutter was mounted with the spray gun in such a manner that the cut lengths of fiberglass were ejected into the converging resin sprays. This concept of "simultaneously spraying a catalyzed resin through one spray gun and a promoter resin

through another spray gun for externally mixing the two reactant adhesive components, was old in the art." But it was also old to hold a cutter in one hand and the spray guns in the other:

> "This cutter and Schori gun were used conjointly—one held in one hand and one held in the other—to simultaneously cut fiberglass roving into shorter and spray the cut fibers with the two component resin binder . . . ." (139 USPQ at 68)

This Court approved the Trial Court's holding that the alleged invention was simply drawn to an obvious combination.

From the foregoing discussion of these cases it is apparent that facts bearing on the question of nonobviousness in such cases are so different from the facts present here that these cases are not authority for questioning the findings of the Trial Judge in this case that the invention was not obvious.

The defendants point to no evidence which would indicate that the Trial Court's findings upon novelty, obviousness and invention are erroneous. In the absence of anything in the record to show that the findings are "clearly erroneous" they should be sustained. Pertinent is the language used by this Court in *Stauffer* v. *Slenderella,* 254 F.2d 127, 115 USPQ 347 (1957):

> "This Court has consistently held that the question of validity of a claim of a patent is one of fact. The findings of a judge upon novelty, utility and invention are entitled to great weight when made after trial of these issues. This Court will respect such findings unless the record shows these to be 'clearly erroneous.' "

ALL CLAIMS ARE DIRECTED TO VENEER HANDLING APPARATUS

Defendants disagree with the trial court which interpreted the claims in suit as being directed to an apparatus for feeding sheets of veneer into a veneer dryer. The claims were correctly so construed. The patent is entitled "APPARATUS FOR HANDLING VENEER." The opening paragraphs of the specification read as follows:

> "The present invention relates to material handling apparatus of the feeder type, and, more particularly, *to apparatus for feeding veneer* to a multiple deck conveyor type veneer dryer from a stack of veneer.
>
> "The principal object of the invention is the provision of a simple, inexpensive and reliable *apparatus for feeding veneer* from a stack of veneer to a multiple deck conveyor-type veneer dryer with minimum effort on the part of an operator.
>
> "A more specific object of the invention is the provision of a novel and improved *apparatus for feeding veneer* from a stack of veneer to a multiple deck conveyor-type veneer dryer in predetermined relation upon the top piece of a stack of veneer being pushed forwardly of the stack proper a small amout by an operator." (Emphasis ours.)

The patent illustrates two embodiments of apparatus for feeding veneer and is otherwise entirely directed to feeding veneer.

The specification concludes as follows:

> "From the foregoing it will be apparent that the

> objects heretofore enumerated and others have been accomplished and that there has been provided a novel and improved *apparatus for feeding veneer* to a multiple deck dryer, or, in fact, any similar sheet material to a multiple deck machine in predetermined sequence and in predetermined spaced relation." (Emphasis ours.)

The last quoted paragraph refers to similar sheet material. The evidence disclosed no sheet material similar to veneer nor that the Parker feeder has been used for other than veneer.

From the foregoing it is evident that the claims in suit when using a term such as "in equipment for loading material in sheet form into a multiple deck conveyor-type machine," have reference to veneer alone.

In *United States* v. *Adams et al,* supra, the Supreme Court construed claims which did not mention water as being directed to a battery utilizing water as an electrolyte. The pertinent portion of the decision is as follows:

> "There are several basic errors in the Government's position. First, the fact that the Adams battery is water-activated sets his device apart from the prior art. It is true that Claims 1 and 10, supra, do not mention a water electrolyte, but, as we have noted, a stated object of the invention was to provide a battery rendered serviceable by the mere addition of water. While the claims of a patent limit the invention, and specifications cannot be utilized to expand the patent monopoly, *Burns* v.. *Meyer,* 100 U.S. 671, 672 (1897); *McCarty* v. *Lehigh Valley R. Co.,* 160 U.S. 110, 116 (1895), it is fundamental that claims are to be construed in the light

of the specifications and both are to be read with a view to ascertaining the invention, *Seymour* v. *Osborne,* 11 Wall. 516, 547 (1870); *Schriber-Schroth Co.* v. *Cleveland Trust Co.,* 311 U.S. 211 (1940); *Schering Corp.* v. *Gilbert,* 153 F.2d 428 (1926). Taken together with the stated object of disclosing a water-activated cell, the lack of reference to any electrolyte in Claims 1 and 10 indicates that water alone could be used."

In *Everest* v. *Duke,* 139 F.2d 22, 60 USPQ 56, the Court of Appeals for the Seventh Circuit said:

> "Appellant further contends that claim 1 refers to any kind of a folding chair, with or without wheels, and hence it is anticipated by the cited prior art. It is true that claim 1 merely describes a folding chair, but for reasons heretofore stated, that fact does not render the cited prior art any more pertinent. However, this patent was issued by the Patent Office on a 'Folding Propulsion Wheel Chair.' We understand that all claims should be construed in the light of the specification and the drawing. They conclusively prove that the patent was properly named by the Patent Office and we are convinced that claim 1 should be construed as referring only to a folding propulsion wheel chair."

Defendants complain that claims 10, 11 and 14 were amended at the time of reissue to refer to the equipment as for loading sheet "veneer" material. All that this amendment did was make explicit in the claims that which the Supreme Court in *U. S..* v. *Adams et al, supra,* said should be read into the claims.

Other cases supporting the District Court's holding of validity follow.

In *Hughes Blades, Inc.* v. *Diamond Tool Associates,* 300 F.2d 853, 132 USPQ 305 (1962), this Court remanded a case to the trial court directing it to consider the tests of invention suggested by Judge Learned Hand in *Safety Car Heating and Lighting Co.* v. *General Electric Co.,* 155 F.2d 937, 69 USPQ 401. These suggested tests for an invention and our answers as applied to the invention at issue are as follows:

1. How long did the art, though needing the invention, go without it? Answer—more than 20 years.

2. How many sought to meet the need? Answer—at least Parker and a number of Coe engineers.

3. The period over which their efforts were spread? Answer—1936 to 1948.

4. How many, if any, came upon it at about the same time? Answer—Parker alone.

5. Perhaps most important of all—the extent to which it superseded what had gone before? Answer—by the time of trial it virtually eliminated hand feeding of veneer dryers.

These same considerations were applied by this Court in *Hayes Spray Gun Co.* v. *E. C. Brown Co.,* 291 F.2d 319, 129 USPQ 383 (1961):

> "In further support of its claim of invention, appellants point to the trial court's findings that there was great need for a sprayer such as Hayes' capable of proportioning (Findings IV, V, VI and XXX). Numerous other devices, the court found, did not meet the need so established (See Findings XXVI, XXVII) but the Hayes device did (Finding

> XXXI). In holding a patent for an improved pulley belt to be valid, in another case, the Supreme Court considered the facts that several previous efforts had failed and that the inventor himself had spent a number of years experimenting before he hit upon the solution. Appellants also point to commercial success of the device, a fact which, though not conclusive, tends to prove the originality and utility of the product. Finally, appellants rely upon the presumption of validity arising out of the Patent Office's issuance of the patent. Such presumption can be overcome only by clear and convincing evidence. And there appears to be no suggestion that the Patent Office did not consider the most pertinent reference before issuing the patent.
>
> "In short, the Hayes device must be regarded as an invention; it is an advancement which was not obvious at the time it was made."

The decisions of the Ninth Circuit referred to above have uniformly followed the standard of invention laid down by the Supreme Court and most recently reaffirmed in *Graham* v. *John Deere Co., Calmar Inc.* v. *Cook Chemical Co.* and *United States* v. *Adams, supra.* The Parker invention meets the conditions of patentability set forth in these decisions: it is new, useful and the differences between the subject matter of the Parker patent and the prior art are such that as a whole it was not obvious at the time Parker made his invention to a person having ordinary skill in the art to which it pertains. 35 U.S.C. 103.

CLAIMS IN ISSUE DO NOT OVERCLAIM INVENTION

The successful feeding of veneer from stacks to the various decks of a dryer comes about only because of the cooperation of the elements called for acting in combination. Defendants' contention that Streeter 1,809,456, has all of the elements of Parker except the pinch rolls and therefore Parker overclaimed his invention is not true.

As stated by defendants:

> "Streeter was principally concerned with feeding partially manufactured material, such as wallboard, *which could not be stacked* and was therefore moved in a more or less *continuous plan* from a pressing device to the multiple-deck dryer." (D's Br. p 26) (Emphasis ours)

Streeter lacks among other things, any element for roll-stack alignment. The so-called jump rolls, Unit A, that are utilized by Streeter are simply direction changing devices and consist of nothing more than a set of powered rolls spaced between and parallel to conveyor belts 1 upon which plasterboard is carried to a position in front of the tipple B. The rolls can be raised sufficiently to enable the plasterboard to be moved above the belts and delivered to the tipple B which conveys the plasterboard to the dryer. It is obvious that the addition of a set of pinch rolls to Streeter would not have resulted in the Parker apparatus.

It is clear that Parker made a new combination of elements and not merely an improvement in an element nor did he merely substitute one known element for an-

other as was the case in *Pierce* v. *Ben-ko-matic,* 310 F.2d 475 (C.A. 9, 1962) and in *Heyl & Patterson, Inc.* v. *McDowell Co.,* 317 F.2d 719 (C.A. 4, 1964). In the former the patentee substituted a pulley as a cable guide means in a street sweeper broom rewinding machine in place of a squeeze block used in a prior art machine that otherwise had all the elements of the patented machine and functioned identically. In the latter case complex apparatus for loading coal from shore into a ship's hold was involved. The patentee attempted to claim in combination all of the apparatus utilized, but the court found that the sole improvement over the prior art was "in a mechanical change to facilitate the use of the upper end of the chute leading to the ship's hold in place of a stationary pan."

THE TRIAL COURT CORRECTLY HELD CLAIM 17 TO BE INFRINGED

In the previous appeal in this matter, this Court observed as to infringement:

> "Our study of the record causes us to conclude that the question of infringement of the claims in issue is a close one, at least with regard to claim 17. At all events, non-infringement is not readily apparent or perfectly clear . . ."

Upon remand Judge Solomon reconsidered the question of infringement of all of the claims and found claim 17 to be infringed, stating as follows:

> "In my original findings I concluded that the accused apparatus did not have a vertically mov-

> able assembly at the infeed end. Upon re-examination I have concluded that I erred. I now find that the accused apparatus does have a vertically movable assembly or its full equivalent at the infeed end and that the accused apparatus does infringe claim 17 of the patent in suit."

The trial court found that the elevatable or scissor-like platforms of defendants' apparatus "are integral and essential parts of the accused feeding apparatus." (Finding XLIV) The defendants' argument that they do not infringe claim 17 is based upon their contention that this finding is clearly erroneous.

The evidence fully establishes that the elevatable platform is an essential and integral part of the accused apparatus.

As is brought out in the opinion of the Trial Court and its Findings, an essential feature of the patented apparatus is the maintenance of the top of the stack of veneer being fed at a level with the nip of the infeed pinch rolls so that an operator may simply push off the top layer of veneer from the stack of veneer into the pinch rolls. Without such roll-stack alignment the apparatus would have no utility.

It is obvious that either the rolls could be raised or lowered or the stacks could be raised or lowered to maintain roll-stack alignment. Parker illustrated an arrangement in which the infeed rolls were raised and lowered. He clearly contemplated the alternative arrangement. In his patent he states:

> "It is also to be understood that the vertically

> movable assembly of the infeed end unit C may be positioned at some convenient height above the floor and the veneer fed thereto in any suitable manner, either manually or automatically." (Tr. Vol. I, 343, Col. 9, lines 9-13)

The suggestion of fixing the roll height was followed by Coe's licensee, Moore Dry Kiln Company, who put the veneer stack upon an elevatable platform (Tr. Vol. I, 132-133).

The defendants have used the same system as Moore and made their infeed rolls stationary and positioned the veneer stacks on an elevatable platform in front of the infeed rolls.

The defendants argue that the elevatable platform is a "standard piece of unpatented equipment which is commonly used in plywood manufacturing plants and is available from various sources." Such a statement could be made of numerous parts of any combination apparatus—of the motors, of the nuts and bolts which hold it together, of the individual wheels which go to make up the top infeed roll of the defendants' apparatus and of countless other parts. The test is, would defendants have a useful apparatus without the elevator. The evidence is clearly to the contrary.

Defendant Otto Jeddeloh testified that the elevatable platform works in combination with the rest of the apparatus (Tr. Vol. I, 126). He further testified that he did not know of any of the accused devices, of which there were about one hundred at the time of trial, that did not include an elevatable platform to maintain the

stacks of veneer at the height of the infeed roll. In his own patent No. 2,876,009 (DX 123) covering the accused apparatus he illustrates, describes and claims the elevatable platform as a part of his apparatus:

> "1. In sheet handling mechanism for handling sheets of predetermined length, a multiple deck receiving conveyor assembly . . ., a pivotal loading conveyor mechanism . . ., *elevatable platform means* adjacent the infeed end of said loading conveyor mechanism supporting stacked sheets to be fed to said loading conveyor mechanism, . . ." (Emphasis ours)

(Defendants conveniently omit from their brief appendix the pages of the drawings of the Jeddeloh patent No. 2,876,009 illustrating the elevatable platform).

Drawings supplied during discovery by defendants of the accused apparatus showed the elevatable platform (Px. 5).

In response to a question as to how the balance of his feeder apparatus would be utilized if the veneer was not on an elevator, Otto Jeddeloh responded:

> "I don't know." (Tr. Vol I, 127)

The elevatable platform is a part of and cannot be separated from the rest of the accused apparatus. It is part and parcel of the "entering end" of the "vertically movable feed means" called for in claim 17, as correctly recognized by the Trial Judge. The elevatable infeed pinch rolls of Parker and the elevatable platform of the accused apparatus perform the same functions in substantially the same way to attain the same result, that is, roll-stack alignment.

Defendants urge that DX 129 was improperly excluded from evidence. This exhibit was a description of a so-called Model 58 veneer feeder apparatus which plaintiff produced in limited numbers and which was designed for use with an elevator but which elevators plaintiff does not itself produce, as contrasted to defendants who manufacture and sell hoists or elevatable platforms for use in their feeders.

The statement which defendants sought to have introduced was made by an engineer-employee of plaintiff (Tr. Vol. I, 150). There was no evidence that the statement had been authorized or approved by any official of the company and insofar as the evidence showed it was the conclusion of that employee alone. How he reached this conclusion is not shown, and what he meant by the statement which defendants attempted to get on the record is unknown. The conclusion of that employee would have no value in any event unless the qualifications of that employee to have an opinion were in evidence, and defendants made no attempt to show his qualifications. It would appear that the statement was wholly incompetent to establish or prove any fact or issue in this case and the exhibit was properly excluded.

The other facts in evidence here show, in any event, that the elevatable platform of defendants' apparatus is a necessary and integral part thereof.

DEFENDANTS' MERE REVERSAL OF PARTS DOES NOT AVOID INFRINGEMENT

In the illustrated embodiments of the Parker apparatus the stacks of veneer to be fed are placed upon a platform and the infeed pinch rolls are adjusted to the top of the veneer stack. The accused apparatus merely reversed this arrangement by placing the stack on an elevatable platform and fixing the height of the rolls. Such a reversal of parts, in fact suggested by Parker (Tr. 343, Col. 9, lines 9-13), does not avoid infringement.

> "Changing the relative positions or reversal of the parts of a machine or manufacture does not avert infringement, where the parts transposed perform the same respective function after the change as before." *Bianchi* v. *Barili,* 168 F.2d 793, 800, 78 USPQ 5, 10 (C.A. 9, 1948)

The situation in the *Bianchi* case was similar to that here. Infringement was charged of a ravioli manufacturing machine having two rollers through which the paste material was passed. The patented device had axial cutters on one roll and annular cutters on the other roll. The defendants placed both types of cutters on one roll and argued that they thereby avoided infringement. This argument was rejected:

> "The mere transfer of the axial cutters from the roller containing the molds to the other roller, containing the annular peripheral cutters, does not avert infringement. The function of cutting in the two machines are identical."

Also appropriate is the decision of the United States

Supreme Court in *Machine Co.* v. *Murphy,* 97 U.S. 120. Infringement was charged in that case of a patent showing a machine for cutting paper bag blanks from a sheet of paper by a cutter arranged to ascend and descend as the paper was drawn beneath it. The accused device utilized a fixed cutter over which the paper sheet was drawn, a striker being caused to fall upon the cutter and paper to effect cutting of the paper. In holding infringement the Court observed:

> "The knife and the striker, operating together, perform the exact same function as that performed in the complainant's machine by the ascent and descent of the cutter."

To paraphrase—the elevator and fixed rolls of the accused machine, operating together, perform the exact same function as that performed in the complainant's machine by the ascent and descent of the rolls.

The defendants urge, of course, that Parker did not show an elevatable platform for his stacks of veneer. This Court, however, has correctly recognized that a patentee is not limited to the illustrated embodiment of his invention. In *Hansen* v. *Colliver,* 282 F.2d 66, 69, 127 USPQ 32, the following was stated:

> "A claim, however, does not limit the patentee to the exact mechanism described, leaving the public at liberty to construct substantially identical copies of the patented machine by varying its form or proportion (White v. Dunbar, 119 US 47, 7 S. Ct. 72, 30 L. Ed. 303), or to adopt mechanical equivalents for the machine, or portions thereof (Hobbs v. Beach, 180 US 383, 21 S. Ct. 409, 45 L. Ed. 586)."

PATENT CLAIM 17 WAS NOT LIMITED BY ESTOPPEL

Claim 17 of the patent was added to the application after it was filed as application claim 21. The claim was allowed by the Examiner as presented and without any amendment whatsoever. Under the rule of this Court there can be no estoppel as to the interpretation of this claim.

> "It is a rule in this Circuit that admissions made by the applicant to the Examiner are not to be used to narrow the scope of his claim unless he has made changes in his application pursuant to the Examiner's suggestion." *Schnitzer* v. *California Culvert Co.*, 140 F.2d 275 (C.C.A. 9)

In presenting claim 17 (application claim 21) to the Patent Office Parker did not disclaim a machine which had fixed infeed rolls as argued by defendants. When claim 21 was added, Parkers' sole comments respecting the claim was as follows:

> "Favorable consideration to new claim 21 presented herewith is requested. This claim is drawn along the lines of claims already in the application and is generic to both of the preferred embodiments shown. None of the references of record shows a sheet feeding mechanism for a multiple deck, power-driven, conveyor-type machine comprising power driven pinch rolls, means for producing relative movement between the pinch rolls toward and from each other, power actuated means for vertically moving the entering end of the feed means, and automatically controlled, power-acutated means for moving the discharge end of the feed means ver-

> tically in timed relation to the relative movement of the pinch rolls. Referring to the references relied upon in the last Office Action, attention is called to the fact that neither Jones, Smith, nor Brunner, shows any feeding means employing pinch rolls, much less automatically controlled vertical movement of the discharge end of a feeding means operated in timed relation to the relative movement of pinch rolls toward and from each other."

There is certainly nothing in this statement by Parker that can be interpreted as a disclaimer of an apparatus having fixed infeed rolls. Parker simply pointed out that none of the prior apparatus had "power actuated means for vertically moving the entering end of the feed means" in combination with the other elements making up the apparatus.

In summary, the Trial Court's finding XLIV that no estoppel existed to the scope of interpretation of claim 17 and its conclusion that defendants' apparatus infringes claim 17 are eminently correct and should be affirmed.

COURT DID NOT ABUSE DISCRETION IN DECLINING TO RULE UPON PROPRIETY OF REISSUE

At the time of the original trial and upon remand defendants were charged with infringement only of claims 3, 5, 7 and 17 carried over without change from the original patent to the reissue. Plaintiff having abandoned whatever rights it may have had under other claims of the patent is precluded from recovering against

defendants with respect to such other claims of the patent because of defendants' manufacture, use or sale of the accused apparatus.

This Court has in numerous cases held that it is unnecessary to decide the validity of claims which have been held non-infringed. In *Del Francia* v. *Stanthony Corp.*, 278 F.2d 745, 125 USPQ 385 (C.A. 9, 1960) this Court affirmed a lower Court's opinion that the accused device did not infringe the patent in suit but directed the lower Court to reverse a holding of invalidity on the ground that the public interest did not require a determination of the validity of the patent. Surely, claims not in issue respecting which plaintiff is estopped from recovering against defendants for any of the acts complained of in this action do not present a situation which is any different than that presented in the *Del Francia* case. Accordingly, the Trial Court was justified in not determining the validity of any of the claims of the patent in suit other than claims 3, 5, 7 and 17.

Defendants' challenge of the validity of the reissue patent arises as a counterclaim for declaratory judgment, and it would appear that no actual controversy between the parties existed, within the meaning of 28 U.S.C. 2201, relating to declaratory judgments, other than the validity and infringement of claims 3, 5, 7 and 17. Having properly determined that the circumstances of the reissue could not affect the validity of claims 3, 5, 7 and 17, the Court did not abuse its discretion in declining to decide whether reissue of the Parker patent was proper or improper.

Defendants here are not interested in an adjudication of any claims except claims 3, 5, 7 and 17. At the hearing of December 7, 1962, upon remand, defendants stipulated that they were directing their inquiry of validity only to claims 3, 5, 7 and 17.

> "THE COURT: I have reread the Court of Appeals' opinion. Apparently they want findings on every issue raised by the complaint and supplemental complaint and the answer on the counterclaim.
>
> Mr. Kolisch, what issues are you going to rely on at this time? As far as validity is concerned, are you going to rely on no invention?
>
> MR. KOLISCH: Yes, we would rely on the question of validity, and on the merits we will raise the usual defenses of no invention. But we will agree to limit the inquiry with respect to Claims 3, 5, 7 and 17.
>
> We had asked for a declaration of invalidity on the merits of the claims. Now we are willing at this time to limit the inquiry at this time to three specific claims on the merits.
>
> THE COURT: Are there not four?
>
> MR. KOLISCH: I am sorry, 3, 5, 7 and 17.
>
> I would like to distinguish at this point, just so that there isn't any misunderstandng, we are still going to urge invalidity of the whole patent for legal reasons, and those legal reasons are the invalidity of the reissue." (Tr. Vol. IV, 2)

The Section of the Patent Act relating to reissues specifically provides:

> "The surrender of the original patent shall take effect upon the issue of the reissued patent, and every reissued patent shall have the same effect and

> operation in law, on the trial of actions for causes thereafter arising, as if the same had been originally granted in such amended form, but *insofar as the claims of the original and reissued patents are identical, such surrender shall not affect any action then pending* nor abate any cause of action then existing, and the reissued patent, to the extent that its claims are identical with the original patent, shall constitute a continuation thereof and have effect continuously from the date of the original patent." (Emphasis ours). 35 U.S.C. § 252.

This is merely a restatement of the common law as previously laid down by the Supreme Court in *Gage* v. *Herring,* 107 U.S. 640, 2 S. Ct. 819, 27 L Ed. 601 (1882) and *Leggett* v. *Standard Oil Company,* 149 U.S. 287, 13 S. Ct. 902, 37 L. Ed. 737 (1892).

In *Gage* v. *Herring,* supra, the Supreme Court found that the reissue patent in suit was improperly reissued and held that the newly added claim of the reissue was invalid. However, as to the claim which was carried over from the original patent into the reissue it stated as follows:

> "The invalidity of the new claim in the reissue does not indeed impair the validity of the original claim which is repeated and separately stated in the reissued patent." 107 U.S. 646.

Subsequently, in *Leggett* v. *Standard Oil Company,* supra, the Supreme Court affirmed this view:

> "This second claim of the reissue, being a manifest attempt to broaden the original patent, cannot, in view of the amended specification on which it was based or procured, be held to cover a glue

lined barrel as an article of manufacture, which was distinctly disclaimed by the original specification.

"But the invalidity of this new claim in the reissue does not impair the validity of the original claim, which is repeated and made the first claim of the reissued patent. *Gage* v. *Herring,* 107 U.S. 640, 646. (149 U.S. 293)."

Thus, the Supreme Court in *Leggett* v. *Standard Oil,* supra, held directly contrary to the position which the defendants urge upon this Court. The Court held that the reissue was improperly granted but this did not affect the validity of an original claim carried over into the reissue.

The present statute, 35 U.S.C. 252, with respect to the effect of surrender of an original patent, is identical to prior Section 64, Title 35 U. S. Code, under which the Court of Appeals for the Second Circuit held that claims carried over from an original patent were not affected by any impropriety of the reissue.

In *Foxboro Company* v. *Taylor Instrument Companies,* 157 F.2d 226, 70 USPQ 338 (C.A. 2, 1946) Judge Learned Hand speaking for that Court said:

"We limit our consideration of the validity of the claims to those on which the plaintiff alone relies: reissue claims two, and ten are 'proportioning' claims, and claims five and thirteen are 'reset' claims. All these were in the original patent in substantially the same form that they appear when reissued; and the same indeed applies to all the first sixteen claims of the reissued patent. As

> to these we need not consider whether Mason showed adequate excuse for any reissue whatever, because, even though he did not, the surrender of the original patent, resulting from the acceptance of the reissue, did not invalidate any claims which he carried over into the reissue. For a time this was in some doubt (Eby v. King, 158 US 366, 15 S. Ct. 972, 39 L. Ed. 1018), but the amendment to Sec. 64, Title 35 U. S. Code, in 1928 has now set the question at rest. Schenk v. United Aircraft Corp., D.C., 43 F. Supp. 679, 686."

As these decisions show it is not necessary for this Court, nor was it necessary for the Trial Court, to consider whether Parker showed adequate reason for the reissue since the reissue could not invalidate the claims in suit which he carried over from the original patent into the reissue.

The only decisions of this Circuit referred to by the defendants in connection with the reissue are *Kalich* v. *Paterson Pacific Parchment Co.,* 137 F.2d 649, 58 USPQ 637 (1943), and *Riley* v. *Broadway-Hale Stores,* 217 F.2d 530, 103 USPQ 414 (1954) neither of which is contrary to the position plaintiff takes here. In the *Kalich* case only claims newly added in the reissue patent were in issue, and although the court found that the reissue had been improperly granted, it specifically declared only the newly added claims in issue invalid. In the *Riley* case, for reasons not clear from the record, counsel stipulated prior to the trial that one of the questions of law for the Court was "whether or not the reissue patent in suit, No. 23,167, *and each of the claims*

thereof are invalid due to the absence of accident, inadvertence, or mistake warranting the grant of such reissue patent." (Emphasis ours). Because of this stipulation the Court was not called upon to determine whether the claims in the reissue carried over from the original patent were affected by the impropriety of the reissue.

THERE IS NO EVIDENCE IN THE RECORD TO SUPPORT THE CONTENTION THAT THE REISSUE WAS IMPROPERLY GRANTED

The defendants have advanced numerous arguments in support of their contention that the reissue was improper. No evidence was introduced at the original trial or subsequent to remand upon which a determination of the propriety of the reissue could be made.

At the trial, the District Court ruled that it would not consider the matter of the propriety of the reissue and that the specification of the original patent would be looked to in determining the validity of the claims in issue. After remand, in an informal conference, on inquiry by the judge, counsel for both parties stated that no additional testimony would be offered by them.

The Trial Court's ruling during trial is as follows:

> "MR. KOLISCH: The point is that if claims 18 through 24 are broader in any respect, then it is broadening the reissue, and the patent is invalid, the whole patent.
>
> THE COURT: I am going to rule now that we will not look to the new claims in the reissued patent since they are not claims upon which action

has been instituted and that the original specifications will be looked at to determine validity and that this *case stands or falls on the question of the original specifications and the original claims.*

However, I am going to segregate the issue of the validity of the entire patent, and if you in the meantime can supply me with authority in supporting your position and I find in favor of your position, then we will reopen the case for the purpose of admitting that testimony on that issue.

MR. KOLISCH: I merely want to call the Court's attention to the fact that we did counterclaim, and I think it is in issue that a declaration of invalidity of the complete reissued patent —

THE COURT: I am not going to try that portion of the case just now.

MR. KOLISCH: That is a segregation.

THE COURT: I am going to segregate that issue, but we are going to go now on the original claims and the original specifications, and, to the extent that the word 'guide' may enlarge upon the meaning of the other words used in the original patent, I am going to hold that no interpretation of the word 'guide' shall be used in order to construe that original specification." (Tr. Vol. I, 228-229) (Emphasis ours)

Defendants argue that the addition of the words "or guide" to the specification at the time of reissue (the only change made in the specification), broadened, and thus invalidated, the reissue. Plaintiff does not agree that the addition of the words "or guide" broadened the specification in any manner whatsoever, nor is there any testimony to support defendants' position.

The Trial Court properly ruled that it could ignore such amendment to the specification and interpret the claims in the light of the specification of the original patent. In so doing, the Court followed *Nash Engineering* v. *Cashin,* 13 F.2d 718 (C.A. 1, 1926). In that case a patent had been reissued with no changes in the claims but with a broadened specification. In evaluating the claims, the Court observed that if the amended specification was to be considered, the defendants did infringe the patent, but the claims would then be interpreted as being broader than the invention described in the original patent, and thus invalid. On the other hand, the Court said if it disregarded the effect of the changes in the specification, the claims would be valid but not infringed. The Court ruled that it should, in such an instance, interpret the claims in the light of the original specification and did so holding the claims not infringed.

DAMAGES AWARDED ARE INADEQUATE

Claim 17, which was held to be infringed, provided a new combination of elements for the elimination of hand-loading of veneer dryers. The combination created a new apparatus which allowed veneer to be loaded into dryers mechanically and was not an improvement of a part or an apparatus previously existing. While the court did not find infringement of other claims, it did find infringement of a claim which created an entirely new and previously unknown apparatus.

Defendants cite in support of their contention that

the royalty fixed by the court was excessive, cases in which improvements were made to part of a larger apparatus. That is not the case before the court. Here there was no improvement of a minor part or element and claim 17 was directed to an entire and previously unknown apparatus which was sold by plaintiff in Ohio for $18,750 and by defendants in Oregon for $16,500. Plaintiff's development costs had exceeded $150,000 and defendant had incurred none. Having no development costs to amortize and no royalty to pay, defendants were in position to undersell plaintiff and substantially reduce a business which plaintiff had pioneered.

In *Philp* v. *Nock,* 1873, 17 Wall 460, 462, the infringement was confined to a part of an apparatus sold. This was also true in *Wooster* v. *Simonson,* C.C.S.D.N.Y., 1863, 16 F. 680.

In *Hunt Bros. Fruit Packing Co.* v. *Cassidy,* 9th Cir., 1892, 53 F. 257, the patent in suit related to two different improvements in fruit dryers. The court held that damages must be based upon infringement of the particular claim sued upon stating that the infringers' "claim for damages can not be broader than for the infringement he claims." That is precisely the measure of damages followed by the trial court here. Claim 17 encompasses the entire apparatus and the court took the value of the entire apparatus into account in setting the awarded damages.

Defendants generally sold a feeder and hoist combination, but in rare instances sold the feeder without the hoist or elevatable platform. The hoist is an integral part

of the feeder. Otto Jeddeloh testified that he knew of no feeder being employed without a hoist or elevatable platform (Tr. Vol. I 127). Defendants knew that any feeder sold by them would necessitate the building or purchase of a hoist by the purchaser of the feeder. This is contributory infringement.

35 U.S.C. Section 271 of the Patent Laws says:

"Infringement of patent

"(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

When defendants sold the feeder, constituting a material part of the invention, they knew that it would be employed in infringement of the patent and were liable as contributory infringers.

In considering the damages due a patent owner, he

should be entitled to the same consideration as should anyone else against whom a tort has been committed. That is, he should be entitled to the damages which he has suffered by reason of the infringement. The Patent Act so provides:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . . ." (35 U.S.C. 284)

In its latest consideration the Supreme Court in *Aro Mfg. Co., Inc.* v. *Convertible Top Replacement Co., Inc.,* 377 U.S. 476, 141 USPQ 681, 694 (1964) had this to say:

> "But the present statutory rule is that only 'damages' may be recovered. These have been defined by this Court as 'compensation for the pecuniary loss (the patentee) has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts.' Coupe v. Royer, 155 U.S. 565, 582. They have been said to constitute 'the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.' Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 552. The question to be asked in determining damages is 'how much had the Patent Holder and Licensee suffered by the infringement. And that question (is) primarily: had the Infringer not infringed, what would Patent Holder-Licensee have made?' Livesay Window Co. v. Livesay Industries, Inc., supra, 251 F.2d, at 471, 116 USPQ at 168.

> "Thus, to determine the damages that may be recovered from Aro here, we must ask how much CTR suffered by Aro's infringement—how much it would have made if Aro had not infringed."

In other words, if a patent owner can prove loss of sales by reason of the infringer's activities, he is entitled to recover his lost profits from such lost sales.

The reasonable royalty provision was provided to indicate a minimal allowance for the plaintiff, where actual damages are not shown, as for example where the plaintiff is not manufacturing the patented device and hence could not suffer lost sales.

On the question of proper damages, we would also refer the court to *Livesay Window Company* v. *Livesay Industries*, 251 F.2d 469 (C.A. 5, 1958) which the Supreme Court cited with approval in the Aro case. In *Livesay* appears the following:

> "If in all reasonable probability, the Patent Owner would have made the sales which the Infringer has made, what the Patent Owner in reasonable probability would have netted from the sales denied to him is the measure of his loss, and the Infringer is liable for that."

Defendants complain that at most a 5% royalty on their own selling price should be the maximum royalty. Defendants entered a field which plaintiff alone pioneered, developed at great expense, obtained acceptance of the apparatus by the industry with all of the attendant costs and now they wish to avoid their fair share of the costs of the pioneering. That would be most inequitable.

However, the testimony of plaintiff's witnesses amply supports a royalty of $1,000.00 to $1,200.00 for each infringing apparatus manufactured or sold by defendants.

Defendants urge that they should pay as damages an amount less than was charged licensees. This Court has pointed out that an infringer is a wrongdoer and that this should be kept in mind in determining the damages that he should pay.

> "As to what would be a reasonable royalty presents a serious question. Many factors determine a reasonable royalty other than the precise improvement. The entire unit must be considered. However, it must be borne in mind that the defendant in this case is the wrongdoer and as stated in Horvath v. McCord Radiator & Mfg. Co., et al., 100 F.2d 326-335, 40 USPQ 394, 402-403:
>
> > " 'McCord is an infringer and the burden must be placed upon it as a wrongdoer and it is the duty of the Court to find for Horvath with reasonable approximation that to which he is entitled and in so doing, there is no duty to exercise meticulous care to avoid a hardship on McCord.' " *Filtex Corporation* v. *Atiyeh,* 216 F.2d 443, 103 USPQ 197 (C.A. 9, 1954)

The suggestion by defendants that Moore and American took licenses under special circumstances and threats of infringement are without merit. The correspondence in evidence (DX 151, 301, 302) between plaintiff and its licensees shows that the licenses were negotiated in business-like fashion and the royalties agreed upon were the result of agreement between a willing licensor and willing licensees.

INDIVIDUAL DEFENDANTS ARE PERSONALLY ENJOINED AND PERSONALLY LIABLE FOR INFRINGEMENT DAMAGES

Following the trial court's opinion, findings of fact and conclusions of law were approved and entered. Judgment upon the findings was entered against the corporate defendant and against Otto Jeddeloh, vice-president and Fred Jeddeloh, president of the corporate defendant. The Jeddelohs were the holders of eighty percent of the corporate stock. Although the suit had been pending for over seven years, non-liability of the individual defendants, apart from the corporation had never been contended until after entry of the District Judge's opinion and judgment. A motion was then filed to eliminate individual liability from the findings and judgment, which motion the court denied.

The fallacy of their claim of non-liability is established by appellant's brief and the cases cited (D's. Br. 62). A corporation cannot be held liable except through the acts of its officers and agents. All of the acts resulting in liability of the corporate defendant were done by these individual defendants or under their direction. Their connection is not merely as officers of the corporate defendant. They personally designed the infringing apparatus after observing the patented machine in operation. Otto Jeddeloh claimed to be the inventor of the infringing machine and applied and secured a patent thereon in his own name, and permitted the defendant corporation to manufacture the infringing apparatus under such patent. They manufactured and sold the in-

fringing apparatus—in none of these activities were they acting as officers. Except for the acts of these individuals, there would be little to establish liability of the corporation. In *Dangler et al* v. *Imperial Mach. Co., et al,* 7 Cir. 1926, 11 F.2d 945, 947, the court said that an officer acts willfully and knowingly when he personally participates in the manufacture and sale of the infringing article (acts other than as an officer). In addition to participating in the manufacture and sale, Otto and Fred Jeddeloh designed the infringing apparatus. By the judgment of the court they are present enjoined, as is the corporation, from continuing the manufacture and sale. Surely, there can be no justification for relieving them of the prohibition against continuing the infringement and of paying plaintiff's damages.

The record herein clearly shows that Fred and Otto Jeddeloh participated personally in the infringement and that they actively induced infringement and, therefore, are liable as infringers under Section 271 (b) of the Patent Act, as follows:

> "Whoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. 271

A holding that Fred and Otto Jeddeloh are liable for infringement is in accord with numerous decisions including *Dean Rubber Mfg. Co.* v. *Killian,* 106 F.2d 316 (C. A. 8, 1939) where the court said:

> "Defendants claim error on the part of the trial court in not dismissing the bill of complaint as to the defendant, Wilbur J. Dean. In our opinion the record in the case amply sustains the findings of the trial court that the defendants, jointly and sev-

erally, infringed the patent in suit. The record shows that Wilbur J. Dean was the active, directing head of the defendant Company and was in charge of the operations of the plant and gave the orders for its operation; that he was a large stockholder and president of the defendant company; that he is the owner of the accused patent, and that the infringing machine was built and operated under his personal supervision. In our opinion these facts justify the findings of the court under the following well recognized statement of the rule:

> " 'We are of the opinion, therefore, that by the general principles of law, and by analogy with other torts, a director of a corporation, who, as director, by vote or otherwise, specifically commands the subordinate agents of the corporation to engage in the manufacture and sale of an infringing article, is liable individually in an action at law for damages brought by the owner of the patent so infringed. As with other infringers, it is immaterial whether the director knew or was ignorant that the article manufactured and sold did infringe a patent.' (National Cash Register v. Leland, 94 F. 502-511)."

Similarly, the holding is in accord with *Marks* v. *Polaroid Corp.,* 237 F.2d 428 (C.A. 1, 1956) where the court ruled as follows:

> "At this point consideration of the personal liability of plaintiff-appellant Marks' for Depix Corporation's infringement is in order.
>
> "Depix was a small family corporation organized by the plaintiff-appellant and his brother. Both men

with their mother were the only officers of the corporation and the three owned all of its stock through their ownership of the stock of another corporation which held all the stock of Depix. The District Court found that the plaintiff-appellant supervised and directed the building of the machines and equipment used by Depix in manufacturing its product, that he was thoroughly familiar with the details of the process employed by Depix and with its product, and that he was the patentee of the patents under which Depix allegedly operated and for the exploitation of which it was organized. On the basis of these facts the court below found that Marks not only actively participated in the business of the corporation but also directly contributed to the corporation's infringement, which the court said, would not otherwise have occurred. On the basis of these facts the court found the plaintiff-appellant to have been the 'guiding spirit' behind Depix' infringement and hence liable with it for the infringement complained of by Polaroid.

"The above facts certainly show that the plaintiff-appellant was more than merely an officer of an infringing corporation. They show that he individually, was the moving, active conscious force behind Depix' infringement. This is clearly enough to make him personally liable under general principles, see Dean Rubber Mfg. Co. v. Killian, 106 F.2d 316, 320, 42 USPQ, 493, 497 (C.A. 8, 1939), as well as under Title 35 U.S.C. § 271 (b) which provides:

> " 'Whover actively induces infringement of a patent shall be liable as an infringer.' "

In *Moseley et al* v. *U. S. Appliance Corp.,* 155 F.2d 25, 69 USPQ 301, this court ruled that officers of a corpo-

ration were personally liable for infringement. We quote:

"Appellants contend that 'None of the acts of any of the appellants resulting in the execution of the license to Rilling-Arnao either singly or collectively constitutes an act of infringement justifying an award against them or either of them.' There is no merit in this contention. The acts of appellants which led up to and resulted in the execution of the license agreement included the acts of making and using the infringing device. These, obviously, were acts of infringement.

"The act of licensing Rilling-Arnao Company to manufacture and sell the infringing device was itself an act of infringement. In that act, all the appellants—Keele, Moseley and Keelmo Company—participated; for, though not named as parties to the license agreement, Keele and Moseley caused the agreement to be made. Keele, acting for himself and Moseley, commenced the negotiations which resulted in the agreement. Keele and Mosely formed Keelmo Company for the purpose of dealing with Rilling-Arnao Company. They dominated and controlled Keelmo Company, were its officers, directors and only stockholders, made it their agent and instrument, used it to infringe appellee's patent, and profited by such use. Hence Keele and Moseley, as well as Keelmo Company, were liable as infringers.

"Appellants' brief states that 'there is no charge or evidence of any dishonest motive, intent to accomplish a wrong or perpetrate a fraud in the formation of Keelmo (Company).' The statement is incorrect. The evidence shows that Keelmo Company was formed for the purpose of infringing appellee's patent by licensing the manufacture and sale of the infringing device.

"Appellants say that 'the corporation (Keelmo Company) and its stockholders (Keele and Moseley) must be treated as separate entities.' They were so treated in this case. The court held—and correctly held—that the corporation was the alter ego of its stockholders, but the court did not treat the corporation and its stockholders as a single entity. It treated them as three distinct entities and entered judgment against each of them."

The decision cites the *Dean Rubber* case, supra,

Defendants have cited a number of cases which they say should absolve the personal defendants from liability. These cases are easily distinguishable. In *Powder Power Tool* v. *Powder Actuated Tool Corporation,* 230 F.2d 409, the defendant Klunk was dismissed, but as appears on pages 411 and 412 of that decision, Mr. Klunk participated in the organization of the corporation only to assist his son, and did not receive any money or income from the defendant corporation, and did not take any active part in the business until difficulties arose with the plaintiff, after which time it appears that Mr. Klunk made every effort to resolve the difficulties and avoid any claim of infringement. This is substantially different from our present case where Fred and Otto Jeddeloh actively participated in the conduct of the infringing activities.

In *Dangler et al* v. *The Imperial Machine Co., et al,* 11 F.2d 945, the individuals held not personally liable, "were but slightly interested financially" (p. 947) in the defendant corporation. Furthermore, there was no showing of personal participation by the individual defendants as is present here.

In *Zell* v. *Bankers Utilities Co.*, 77 F.2d 22, the court held that one, David H. Zell, was not personally liable, but it appears that Mr. Zell was not brought into the proceedings until the accounting. The personal activities of Mr. Zell with respect to the infringement is not shown in the decision. In any case, the Ninth Circuit has since seen fit to hold officers liable in *Moseley et al* v. *U. S. Appliance Corp.* (supra).

CONCLUSION

For the reasons advanced above and in plaintiff's opening brief we urge upon this Court that it:

(1) affirm the judgment of the Trial Court holding that claims 3, 5, 7 and 17 are valid;

(2) affirm the judgment of the Trial Court holding claim 17 to be infringed;

(3) reverse the Trial Court and hold claims 3, 5 and 7 infringed;

(4) increase the royalty awarded plaintiff to not less than $1,200.00 for each infringing apparatus;

(5) allow interest from the date of sale of each infringing apparatus;

(6) award plaintiff exemplary damages and attorneys' fees;

(7) affirm the Trial Court in enjoining the individual defendants as well as corporate defendants from further infringement;

(8) affirm the Trial Court in holding the individual

defendants as well as the corporate defendant liable for damages; and

(9) award plaintiff costs of this appeal and the former appeal herein.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

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Of Attorneys for Appellee
and Cross-Appellant

No. 20662

United States
COURT OF APPEALS
for the Ninth Circuit

JEDDELOH BROTHERS SWEED MILLS, INC., et al.,

Appellants,

v.

COE MANUFACTURING COMPANY, a Corporation,

Appellee,

COE MANUFACTURING COMPANY, a Corporation,

Appellee and Cross-Appellant,

v.

JEDDELOH BROTHERS SWEED MILLS, INC., et al.,

Appellants and Cross-Appellees.

Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

REPLY BRIEF OF CROSS-APPELLANT AND APPELLEE

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(a) only when the apparatus includes "*three* units" (Def. Br. p. 2) an infeed end unit, a conveyor, and an outfeed end unit (Def. Br. pp. 13-14), and

(b) only when the rolls are 13 or 14 feet apart (Def. Br. p. 4; pp. 14-15).

Jeddelohs argue their apparatus has a "unitized frame" (Def. Br. p. 6) and that the distance between their infeed and outfeed pinch rolls is "about 3½ feet" (Def. Br. p. 5). We shall consider each of these arguments below.

"UNITIZED" CONSTRUCTION

The "unitized frame" construction is a distinction without a difference. Obviously the infeed roll section and the outfeed roll section must be securely fixed in relation to each other. In the Parker patent these are shown as fixed to the floor. Jeddelohs fix theirs to side plates. Mounting to the floor or to side plates does not change the method of operation in any way whatsoever.

Moreover, under no circumstances can the so-called conveyor-type table D shown in Parker be considered a unit separate and apart from the so-called discharge end unit E since the belts of the conveyor table encircle the bottom of the two outfeed pinch rolls, and obviously they function in cooperation with one another. This bottom pinch roll is as much a part of the so-called conveyor-type table D as it is of the

discharge end unit E. In both the Parker apparatus and the accused Jeddeloh apparatus the outfeed pinch rolls are a part of the floating tipple, the infeed end of which is pivoted and the outfeed end of which floats or is moved from deck to deck of the apparatus being fed.

THE DISTANCE BETWEEN INFEED AND OUTFEED PINCH ROLLS

Defendants correctly observe that nothing is said in the Parker patent as to the distance between the infeed and outfeed pinch rolls. Even if a distance were specified, the situation would be no different since it is well established that a patentee is not limited or restricted to the preferred embodiment shown in his patent. *Hansen* v. *Colliver,* 282 F.2d 66, 69, 127 USPQ 32 (C.A. 9, 1960).

Coe, in fact, built apparatus generally similar to the preferred embodiment shown in Figs. 1 to 8 with the infeed and outfeed pinch rolls spaced at various distances from 10' to 13' (DX 144, p. 13-14).

It is obvious that in either plaintiff's or defendants' apparatus the greater the distance between the infeed and outfeed pinch rolls the less will be the inclination of the floating tipple or table and the flexing of the veneer during feeding. The less the veneer is flexed the greater are the chances that it will not be broken, etc. during the feeding operation. There is merit, therefore, in having the distance between the infeed and the outfeed pinch rolls substantial.

Obvious also is the fact that by fixing the height of the infeed rolls at approximately the midpoint that the maximum inclination of the tipple or table will be less than in the embodiment illustrated in Figs. 1-8 of Parker and the spacing between the infeed and outfeed rolls may be lessened. But this is merely an advantage flowing naturally from the modified construction suggested by Parker in his patent of fixing "the vertically movable assembly of the feed end unit ...... at some convenient height" (Tr. Vol. II, p. 344, col. 9, ll. 10-12) and adopted by defendants.

Beginning at page 8 of their brief, Jeddelohs quote testimony of their expert witness to the effect that the Parker apparatus as shown in the patent would not work if the distance between the infeed and the outfeed pinch rolls was shortened to approximately that employed in the Jeddeloh apparatus. This testimony was pure speculation on the part of the witness and no evidence was offered to prove the assertion. The witness certainly was not qualified as an expert on the behaviour of veneer:

> "Q. Do you know anything about the angle of tolerance in the bending of veneer?
>
> A. Well, green veneer has got pretty good tolerance, I would say. I would not say exactly what it was. It would vary species to species and thickness.
>
> Q. You have never made any study of it to determine when damage is done to the veneer as a result of bending?
>
> A. No, I have not.
>
> Q. Nor at what angle?

A. No, I have not made any specific studies.

Q. You have had no experience whatsoever in the plywood industry, have you?

A. I have had some experience with glues used in the plywood industry.

Q. In the development of glues?

A. Yes, sir; adhesives." (Tr. Vol. I, p. 214)

ACCUSED APPARATUS HAS CONVEYOR-TYPE TABLE OR ITS EQUIVALENT

Defendants try to make some point of the fact that in their apparatus the infeed and outfeed rolls tilt with what they refer to in their Jeddeloh patent, No. 2,876,-009, as the loading conveyor mechanism. This construction results in the nip of the rolls always being in alignment, but the opposing rolls still function only to propel the veneer through the apparatus and the fact is that a table is positioned between the rolls to assure that the veneer will travel from the infeed to the outfeed rolls. Despite assertions that the feeder will operate without a table no operating machine is without one (Tr. Vol I, p. 119).

While minor differences in construction may appear, defendants do not show where any difference in function or operation of the two machines exists. They both function to feed veneer from a stack to the various decks of the dryer. In both, the infeed rolls are automatically opened to receive a load or charge of veneer and subsequently automatically closed to grasp the veneer and pull it from a stack. Operator controlled means are provided in both to keep the top of the stacks be-

ing fed and the infeed rolls in alignment. In both, the outfeed rolls to which the veneer is fed by the infeed rolls are automatically indexed past the decks of the dryer so as to cause the veneer to be loaded in the desired sequence into the various decks. In both, a table is positioned between the infeed and the outfeed rolls to assure travel of veneer between them. The end result of the operation of both machines is exactly the same and it is accomplished in essentially the same way by substantially the same means—with both veneer is fed to the decks of the dryer substantially, continuously and uniformly.

There has been no ambivalence on the part of plaintiff as to the function of defendants' table. The conveyor-type table D of plaintiff's illustrated embodiment operates to direct and support veneer from the infeed and outfeed rolls. This was an inherent function. Defendants' table 51 does no more and no less. No resort to the word "guide" is necessary to find equivalence. The portion of plaintiff's argument quoted on page 21 of the defendants' brief fortifies this fact.

Any differences between the accused apparatus and that of the Parker patent are inconsequential. As stated by Justice Jackson in *Graver Tank & Mfg. Co., Inc.* v. *Linde Air Products Co.,* 366 U.S. 271, "outright and forthright duplication is a dull and very rare type of infringement." Minor variations are found as is to be expected "to conceal and shelter the piracy."

Defendants' apparatus performs substantially the same function in substantially the same way to obtain

the same result making the doctrine of equivalents applicable. *Hansen* v. *Colliver, et al,* 282 F.2d 66, 127 USPQ 32 (C.A. 9, 1960).

DAMAGES

The matter of damages is believed to be adequately covered in Appellee-Cross-Appellant's prior briefs.

CONCLUSION

The decision of the trial court should be affirmed or modified in the respects enumerated in Appellee-Cross-Appellant's opening brief.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

KENNETH S. KLARQUIST,
Of Attorneys for Appellee and Cross-Appellant.

No. 20662

United States
COURT OF APPEALS
for the Ninth Circuit

JEDDELOH BROTHERS SWEED MILLS, INC., a Corporation, OTTO JEDDELOH, FRED JEDDELOH,
Appellants,

v.

COE MANUFACTURING COMPANY, a Corporation,
Appellee,

and

COE MANUFACTURING COMPANY, a Corporation,
Appellee and Cross-Appellant,

v.

JEDDELOH BROTHERS SWEED MILLS, INC., a Corporation, OTTO JEDDELOH, FRED JEDDELOH,
Appellants and Cross-Appellees.

Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

REPLY BRIEF OF APPELLANTS AND CROSS-APPELLEES

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No. 20662

United States
COURT OF APPEALS
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Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

REPLY BRIEF OF APPELLANTS AND CROSS-APPELLEES

Summary of Parties' Basic Positions on Validity

Plaintiff's answer to the defense that claims 3, 5, 7 and 17 are invalid on the merits is that Parker's combina-

tion of old elements is not just an improvement in existing apparatus, but rather for a completely new machine—a veneer feeder.[1] Throughout plaintiff's answering brief the emphasis and sole distinction over the prior art is that Parker produced the first successful veneer feeder. Nowhere in the brief is there any discussion of how the claimed elements function together any differently from the way they always had to produce an unexpected result. Plaintiff's argument never goes beyond general statements of what the Parker machine does and nothing is said about the claimed elements as such. Patentable novelty is predicated solely on the use to which the machine is supposed to be limited, i.e., feeding veneer, rather than some other sheet material.

Defendants' position is that plaintiff was bound under the well-established and very recently reaffirmed law laid down by the Supreme Court, and followed by this Court, to show precisely wherein Parker's combination of old mechanical elements produced an unexpected result. Plaintiff cannot rely on the *use* to which the machine is put to impart patentable novelty.

The Parker patent is not for a new machine because basically the patent is for a machine that will transfer material in timed sequence to a plurality of decks of a conveyor-type machine. Transfer apparatus of that type was not new with Parker. For instance, some of the prior art patents which disclose such apparatus are Jones 644, 520 (DX 102, II.354); Streeter 1,809,456 (DX 110, II.446); Absmei-

[1] Answering Brief of Cross-Appellant and Appellee (Ans. Br.), pp. 4, 5, 8, 13, 18, 28.

er 1,871,832 (DX 111, II.451); Farley 1,903,102 (DX 112, II.458); Bruner 1,913,533 (DX 113, II.465); Moore 1,949,281 (DX 114, II.480); Absmeier 2,000,269 (DX 116, II.498); Birdsey 2,000,272 (DX 117, II.506); Sekulski 2,058,729 (DX 118, II.514). From these patents defendants singled out the Streeter patent because it had not been cited during prosecution of the original Parker application, and because, when plaintiff made its application for reissue, it admitted that Streeter had everything basically called for by Parker except pinch rolls. Cross 640,368 (DX 101, II.354) and Campbell 1,216,773 (DX 105, II.396) disclosed such pinch rolls for feeding sheet material while maintaining roll stack alignment.

From the foregoing it logically follows that the question of patentable invention is reduced to an inquiry as to whether substitution of the prior art pinch rolls in Streeter for his jump rolls produced any unexpected result in sheet feeding, and whether it would have been obvious to one having ordinary skill in the industry.

Under Supreme Court Decisions Parker Did Not Make a Patentable Invention

Plaintiff embraces *U. S.* v. *Adams et al,* — U.S. —, 34 LW 4132, 148 USPQ 479, as "a complete answer . . . to defendants' contention that the Parker combination was not a patentable one."[2] Plaintiff's reliance on the *Adams* case is misplaced because there is no factual similarity between the Adams and Parker patents or

[2] Ans. Br., p. 4.

between the circumstances surrounding them. Adams involved a significant contribution to the science of electrochemistry. He invented a new battery whose operating characteristics

> ". . . have been shown to have been unexpected and to have far surpassed then-existing wet batteries. Despite the fact that each of the elements of the Adams battery was well known in the prior art, to combine them together as did Adams required that a person reasonably skilled in the prior art must ignore that (1) batteries which continued to operate on an open circuit and which heated in normal use were not practical; and (2) water-activated batteries were successful only when combined with electrolytes detrimental to the use of magnesium. These long-accepted factors, when taken together, would, we believe, deter any investigation into such a combination as is used by Adams."[3]

The elements of the Adams battery performed a new function when working in concert—one that was contrary to the teachings of the prior art. Despite the fact that batteries had been the object of considerable experimental work for one hundred and seventy-five years, the prior art did not suggest the combination invented by Adams, and "the Patent Office found not one reference to cite against the Adams application." When Adams brought his invention to the attention of the government, its scientists "did not believe the battery was workable." Later they changed their minds, copied the battery, but failed to notify Adams of their changed views and the use to which the government was putting

[3] 34 LW at 4135.

the Adams battery. The Adams invention clearly met the tests set forth in the *Hotchkiss* and *A.&P.* cases,[4] neither of which is mentioned by plaintiff in its answering brief.

Contrasted with Adams, the Parker patent involves an alleged improvement in a combination of old *mechanical* elements. According to plaintiff's witnesses, the key to Parker's invention was using pinch rolls to feed sheets of veneer.[5] Plaintiff, however, does not deny that the use of pinch rolls to feed other sheet material was old. When Parker employed pinch rolls without any change in their construction or operation to feed veneer he found, unsurprisingly, that they worked.[6] Parker did not go contrary to the prior art teachings, but followed them to produce the expected result when pinch rolls were combined with the other old instrumentalities.

Plaintiff seeks to make out a case of a long-felt need in the plywood manufacturing industry of a machine for feeding veneer to dryers which was not met until Parker came along. It urges that producers were unwilling to try the patented machine because they didn't believe veneer could be mechanically fed, and that when a machine was finally installed, it worked to the amazement of everyone and was a great success.[7]

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[4] 11 How. 248; 340 U.S. 147.

[5] I. 143, 144, 145, 285; PX 4, p. 57.

[6] Pinch rolls were traditionally used on the dryer proper to convey veneer. I.102, 103.

[7] Plaintiff never showed that any commercial success was attributable to the patented invention. *B & M Corp.* v. *Koolvent Aluminum Awning Corp.,* D.C. Ind., 1957, 156 F. Supp. 691, affirmed 257 F.2d 264. At best, commercial success is a "weak reed for a patentee to lean upon." *Farr Co.* v. *American Air Filter Co.,* 9 Cir., 1963, 318 F.2d 500, 504.

parity in standards of patentability applied by the Patent Office and the courts, and pointed to failures of the Patent Office to consider the requirements of Section 103. An examination of the file histories of the original and reissue Parker patents shows failure of such consideration by the Patent Office in the present case. No consideration was ever given by the Patent Office as to whether use of the Cross or Campbell pinch rolls to deliver sheet material to Streeter's multideck dryer feeder was obvious.

Under the Decisions of this Court Parker Did Not Make a Patentable Invention

Plaintiff refers to numerous decisions of this Court and others which have upheld combination patents, and seeks to dispose of some of the Ninth Circuit cases cited by defendants on the grounds that they involved only "a minor change in the construction of an existing apparatus which after the change performed no different function."[10]

Under all of these decisions, regardless of the magnitude of mechanical improvement involved, the court examined the interaction of the old, or old and new, elements to determine whether there was anything unusual or surprising produced as a result of their unification. Only if there was such a result was patentable invention found.

A most recent decision by this Court on the question of patentable invention is *Bentley* v. *Sunset House Dis-*

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[10] Ans. Br., p. 18.

tributing Corp., Mar. 25, 1966, — F.2d —, 149 USPQ 152, in which the *Graham* and other pertinent cases are discussed. In determining the obviousness of a combination of old mechanical elements, the Court reaffirmed the traditional test and said at 155:

> "In assessing the patentability of combination patents, we are to apply a 'severe test,' whether 'the whole in some way exceeds the sum of its parts' to produce 'unusual or surprising consequences from the unification of the elements * * *,' A.&P. Tea Co. v. Supermarket Co., 1950, 340 U.S. 147 at 152."

No such test was applied in this case, and no findings were made as to just how the old elements in Parker functioned differently in combination from out of it.[11] The District Court found that there was patentable invention in the combination because "it was a new method of feeding sheets of green [dry?] and wet veneer into a dryer."[12]

In *Dallas Machine & Locomotive Works, Inc.* v. *Willamette-Hyster Co. et al,* D.C. Ore. 1939, 28 F. Supp.

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[11] *Bergman* v. *Aluminum Lock Shingle Corp. of America,* 9 Cir., 1957, 251 F.2d 801, 808.

[12] Finding XXXI. Defendants singled out in their Opening Brief (pp. 19 et seq.) crucial findings XXX, XXXI for discussion. The District Court's other findings concerning what the prior art was and what Parker did to improve on it are also clearly erroneous. All of these findings are based on the erroneous factual assumption that runs throughout the Court's opinion and findings that the claims in issue are limited to veneer sheets and that the prior art teachings are limited to feeding of sheet material other than veneer. The *Bergman* case, supra, is most pertinent on this point, as well as its discussion of *Stauffer* v. *Slenderella Systems of California,* 9 Cir., 1957, 254 F.2d 127, relied on by plaintiff at page 22 of its Answering Brief for the statement that validity is a question of fact (see particularly Judge Pope's concurring opinion).

207, affirmed 112 F.2d 623, this Court dealt with a similar attempt to distinguish from the prior art based on the use to which a machine was put. The patent there involved a lumber carrier of the straddle type which was a combination of a self-propelled vehicle and an elevator mechanism. In rejecting plaintiff's argument that straddle carriers "constitute a separate field governed by peculiar principles and that the developments in the art of elevator or front-end carrier construction are not to be considered," Judge Fee, writing in the District Court, said at 210:

> "Where a useful principle has been exemplified and belongs to the public domain, no monopoly can thereafter be granted as to that principle. A toy may anticipate a useful industrial device. Where a machine has been invented which works in one material no monopoly can be granted simply because it has been set to work on some different material."

In affirming, this Court made the following two observations which are most pertinent to the present case, 112 F.2d at 626:

> "One of the new elements is said to be the rack bar and pinion used to raise the load. While it is true that the prior art does not disclose use of such a rack bar and pinion, the difficulty with the contention is that the claim is not restricted to a rack bar and pinion but covers any and all 'load-lifting means.' The prior art discloses 'load-lifting means', and therefore the claim, as to such element, points to nothing new. The other element claimed to be new, is the automatic means for disengaging the

> clutch. While none of the 'straddle-type' trucks in the prior art disclosed such automatic means, as noted above, such automatic means were used on elevators.
>
> * * * * *
>
> "Each of the parts is complete in itself. For example, the clutch performs no new or different function in the 'straddle-type' truck than it does when used in any other machine. Its sole purpose is to control the transmission of power. The same may be said for the other parts. The automatic means for moving the clutch to neutral position, so much relied on here, performs no new or different function when used in a 'straddle-type' truck, than it does when used in Dingee's elevator. Its sole purpose is to disengage the clutch, and it does so, whether used in an elevator, or in the 'straddle-type' truck."

The decisions of this Court that there can be no patentable invention in a new use of an old machine or product, or processing of new material in an old machine are in accord with the well-settled law. *Brown* v. *Piper,* 1875, 91 U.S. 37, 23 L. Ed. 200; *Powers-Kennedy Contracting Corp.* v. *Concrete Mixing & Conveying Co.,* 1930, 282 U. S. 175, 75 L. Ed. 278; *Ransome Concrete Machinery Co.* v. *United Concrete Machinery Co.,* 2 Cir., 1910, 177 F. 413; *Vischer Products Co.* v. *National Pressure Cooker Co.,* 7 Cir., 1949, 178 F.2d 125; *Alward* v. *Jordan Marsh Co.,* D.C. Mass., 1954, 120 F. Supp. 580.

plaintiff's own prior art Moore patent, which stated:

> "This invention relates to a feeding or conveying apparatus for veneer, wall board, or like sheet material, which is cut from a log or extruded from a Fourdrinier machine in a continuous sheet, and which sheet material is in such a state as to require a drying operation before it can be used."[16]

Plaintiff's attempt to limit the asserted claims to veneer is contrary to the clear language of the claims, to the file histories of the patent applications, and to the teachings of its own prior art patent.

Furthermore if, as plaintiff now maintains, claims 3, 5, 7 and 17 must be read to include the word "veneer", the claims are invalid for failure to meet the statutory requirements of distinctly pointing out the invention. 35 U.S.C. § 112 provides in pertinent part:

> "The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention."

The claims as worded call for "material in sheet form" which is obviously subject to a broader interpretation than "sheet veneer material" which is the way plaintiff now insists claims 3, 5, 7 and 17 must be read. Plaintiff admittedly changed claims 10, 11 and 14 in the reissue because they were "possibly subject to a broader interpretation."[17] For the same reasons, and for consistency, plaintiff should have amended claims 3, 5, 7 and

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[16] DX 114, II. 480, Col. 1, ll. 1-7.
[17] PX 4, p. 57.

17 to specify "veneer" as the sheet material. Since it did not, they are invalid.[18]

The Claims in Issue Are Invalid for Overclaiming

Plaintiff avoids coming to grips with this defense simply by saying it is untrue because the addition of pinch rolls to Streeter would not have resulted in the Parker apparatus.[19] There is no discussion or refutation any place in plaintiff's brief of the manner in which the various old prior art elements called for in claims 3, 5, 7 and 17 are applicable to the claims, as shown in detail on pages 28 and 29 of Opening Brief for Appellants and Cross-Appellees. That analysis clearly showed that the only element Parker had different from Streeter was pinch rolls, and that both Cross's and Campbell's pinch rolls were mechanically and functionally the same as the pinch rolls called for in the claims.

The comprehensive opinion in *Holstensson* v. *V-M Corp.,* 6 Cir., 1963, 325 F.2d 109, emphatically refutes plaintiff and supports defendants' position. The patent in that case was on a record player. All United States manufacturers of such equipment, except defendant, had taken a license under the patent. The claims of the patent called for a combination of record-dropping mechanism and cycling mechanism. The cycling mechanism called for in the claims was the same as that which had been the subject of a prior art patent but the record-

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[18] United Carbon Co. v. Binney & Smith Co., 1942, 317 U.S. 228, 87 L. Ed. 232.

[19] Ans. Br., p. 28.

dropping mechanism was new. Although the court found that the record-dropping mechanism was a patentable invention, the claims were held invalid for overclaiming because they were not limited to the record-dropping mechanism. The court said, at 122:

> "We come, finally, to the critical question for our decision, namely, will the owner of a patent which, in part, contains patentable invention, be denied recovery from one who clearly infringes the part of the patent which is invention, merely because the patent is not a true combination and claims as part of the invention that which is old and disclosed in a prior patent? We are of the opinion that we must answer in the affirmative. Such a holding appears unfair unless there is a policy of patent law which, in its effect, visits total forfeiture upon a patent which attempts to extend its monopoly to something already patented. There is such a policy."

In this connection reference should also be made to the recent exhaustive opinion of Judge Rosling in *Ling-Temco-Vought, Inc.* v. *Kollsman Instrument Corp.,* E.D. N.Y., 1966, — F.2d —, 149 USPQ 168, where the applicable law of overclaiming is thoroughly examined, particularly in footnote 4 of the opinion, in a situation akin to the present one.

Plaintiff's Misquotation Confirms File Wrapper Estoppel

Defendants' argument with respect to construing claim 17 is based on admissions made to the Patent Office, rather than amendments to the claim, during pros-

ecution of the original Parker patent. On page 36 of its answering brief, plaintiff states that under the rules of this Court, there is no estoppel as to interpretation of claim 17 because no amendment was made to the claim itself, citing *Schnitzer* v. *California Corrugated Culvert Co.,* 9 Cir., 1944, 140 F.2d 275. In quoting from that case, plaintiff omitted certain portions of the original sentence which, if included, give it a different meaning from that sought to be conveyed by plaintiff. The full sentence is hereinafter quoted with the omitted portions italicized at either end of the sentence constructed by plaintiff in its brief:

> "*While* It is the rule in this circuit that admissions made by the applicant to the examiner are not to be used to narrow the scope of his claim unless he has made changes in his application pursuant to the examiner's suggestions. *Yet the proceedings may be used to aid in construing the claim, Warren Bros. Co.* v. *Thompson,* 9 Cir., 293 F. 745."

In *Warren Bros. Co.* v. *Thompson,* 9 Cir., 1923, 293 F. 745, as in *Schnitzer,* this Court considered admissions made during prosecution of a patent application in construing claims, and in both cases the Court concluded that there was no infringement based on such admissions.

When claim 17 is construed in the light of the admissions made to the Patent Office, it cannot be held to cover a machine having fixed infeed rolls like the Jeddeloh machine.

Any conflict there may have existed in the past between various circuits on the extent to which admis-

sions made to the Patent Office may be relied upon in construing a claim were laid to rest in *Calmar Inc.* v. *Cook Chemical Co., Colgate-Palmolive Co.* v. *Cook Chemical Co.*, supra, at 4128, where the Court, in construing the meaning of a claim, expressly referred to admissions made in counsel's argument to the Patent Office Examiner during prosecution of the patent in suit.

There is No Reversal of Parts in the Accused Machine as Compared to Parker

As explained in detail on pages 2-12 of Brief for Cross-Appellees and Appellants, the accused machine operates on a different principle and with different mechanisms from Parker. Admittedly the function or purpose of each machine is the same, i.e., to feed sheet material to various decks of a dryer, but this they have in common with the prior art and such equivalence of itself never amounts to infringement.[20]

The *Bianchi* and *Machine Co.* cases[21] referred to on pages 34 and 35 of plaintiff's answering brief were situations in which there was true inversion or reversal of parts. That is not the situation in our case because by fixing the infeed pinch rolls in the Jeddeloh machine midway between the top and bottom dryer decks and by pivoting the unitized tipple at that point, sheets are fed directly from infeed to outfeed rolls without excessive up and down deflection of the sheets and without a conveyor. A convenient working height for inserting

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[20] Westinghouse v. Boyden Power Brake Co., 1898, 170 U.S. 537, 569, 42 L. Ed. 1136.

[21] 168 F.2d 793; 97 U.S. 120.

sheets into the feeder is constantly maintained. These concepts and the mechanism for carrying them out are distinct departures from the Parker patent.

The Correctness of the Reissue Was and Is an Issue

Contrary to what plaintiff states,[22] defendants have always maintained that the Parker reissue patent was invalid because it was defective as a matter of reissue law.[23] The District Court recognized it as an issue and found the reissue to be proper.[24] In their Statement of Points on Appeal in the District Court, points 6a-6d, and the Court of Appeals, point 7, defendants raised the issue of a defective reissue for failure to satisfy the statutory requirements.

The propriety of the reissue was passed upon by the District Court and is properly before this Court. The reissue should be held invalid as a matter of law for the reasons urged by defendants in their opening brief, pages 55-61..

The Damages Awarded Were Excessive

Plaintiff argues[25] that the statutory reasonable royalty provision indicates only a minimal allowance and that the District Court's allowance was too low because plaintiff suffered damages in a greater amount than such a royalty.

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[22] Ans. Br., pp. 37 et seq.

[23] IV. 2, 4.

[24] III.6; Finding XII(b), III.14; Conclusion II, III.25.

[25] Ans. Br., pp. 45 et seq.

This argument is more prevalent than relevant because the stipulation between the parties was that an award would be made based on what a reasonable royalty would be and not on damages adequate to compensate for infringement as provided in 35 U.S.C. § 284.[26]

The District Court's award of a 5% royalty rate was incorrect and excessive for the reasons urged in defendants' opening brief, pages 64-72.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

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[26] IV.158.

No. 20662

United States
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JEDDELOH BROTHERS SWEED MILLS, INC., et al., *Appellants,*

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JEDDELOH BROTHERS SWEED MILLS, INC., et al., *Appellants and Cross-Appellees.*

Appeal from the United States District Court for the District of Oregon—Civil No. 9702 (Judge Solomon)

PETITION FOR REHEARING

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STEVENS-NESS LAW PUB. CO., PORTLAND, ORE. 12-66

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PETITION FOR REHEARING

TO THE HONORABLE FREDERICK G. HAMLEY, M. OLIVER KOELSCH, Circuit Judges and JAMES A. WALSH, District Judge:

COE MANUFACTURING COMPANY, petitions this Court for a rehearing (we suggest en banc) submitting that the Court rested its decision of November 23, 1966 upon an erroneous understanding of the facts and the criteria establishing obviousness, and because in *Graham* v. *John Deere,* 383 U.S. 1, the Supreme Court for the first time considered 35 U.S.C. 103 and this and other Circuits have indicated a different interpretation of that decision.

The court misunderstood Streeter and therefore was mistaken as to "the scope and content of the prior art" and the differences between Parker and Streeter.

The Court stated in its opinion (p. 10):

> "Streeter, as well as Parker, provides a way to vary vertical positioning of both the infeed and outfeed ends to accommodate variations in height at the source and destination."

In Streeter there is no vertical positioning of the infeed end to accommodate variations in height at the source. The source is the belt conveyor 1 of *fixed height* upon which single sheets of wall board are carried. The direction of travel of the sheets is changed 90° and the sheets are shifted from the conveyor 1 to a *"stationary* feed section 14" (Tr. IV 449, L. 7-8) by transfer rolls 4. Unlike Parker, Streeter cannot feed from a stack since there is no means for varying the height of the infeed

end to accommodate variations in height at the source.

This Court in its opinion (p. 10-11) further stated:

> "The only structural element which is present in Parker, but lacking in Streeter, is the pinch roll mechanism."

This is not true. *Adding pinch rolls to Streeter would not produce Parker's apparatus* nor one capable of accommodating itself to a source of material in stacks of varying height.

The opinion further states (p. 11, nt. 11):

> "The Streeter patent had only jump rolls for feeding sheets at the infeed end and all the Parker patent added was a set of upper rolls."

It is not apparent how this could be done without interfering with the conveying of material over the jump rolls by the conveyor 1 since such upper roll would be in the path of the material. "An inoperable invention or one which fails to achieve its intended result does not negative novelty." *U. S.* v. *Adams,* 383 U.S. 39, 50.

The court erred in the limited weight accorded to long felt but unsolved need, long period and great expense of development, disbelief of the industry of operability of any mechanical feeder, the subsequent acceptance by the industry, and subsequent patenting of improvements by competitors as indicating non-obviousness of the combination "as a whole . . . at the time the invention was made to a person having ordinary skill in the art."

The Supreme Court in *Graham* and *Adams* approved consideration of the above factors. The rejection of them here is inconsistent with (1) numerous decisions of the Supreme Court such as *Paramount Publix Corp.* v.

American Tri-Ergon Corp., 295 U.S. 464, 497, where it stated:

> "Where the method or device satisfied an old and recognized want, invention is to be inferred, rather than the exercise of mechanical skill;"

(2) the interpretation of *Graham* by *this Court* in *Bentley* v. *Sunset House Distributing,* 359 F.2d 140 where in considering obviousness this court said:

> "The fact that patentee's device satisfies long felt needs is persuasive proof of innovation, Graham v. John Deere Co., 84 S. Ct. 684; Kaakinen v. Peelers Co., 9 Cir., 1962, 301 F.2d 170, 173." (p. 145, nt. 3); and

(3) the Seventh Circuit in *Walt Disney* v. *Niles,* 151 USPQ 528, decided Nov. 19, 1966, where the court concluded that evidence of such factors "strongly points to non-obviousness" and, in reversing the lower court, held the patent valid.

To require in a combination of mechanical elements that such elements individually perform in the combination some different function than they performed out of it is not a requirement imposed by the A & P decision and to impose such a standard upon inventors of mechanical combinations constitutes a denial to them of equal protection under the laws.

In *Cold Metal Process Co.* v. *Republic Steel Corp.,* 233 F.2d 828, 848 (C.A. 6, 1956) cert. den., 352 U.S. 955, the court said:

> "Republic's contention carried to its logical conclusion is that for a combination of old elements in a machine to be patentable these elements must be transformed into mechanical processes or mechanisms performing different mechanical functions from

> those they formerly performed. We think this is not sound. A roller bearing will always be a roller bearing. A mechanism used in a combination is not thereby transformed into a different mechanism."

A & P v. *Supermarket,* 340 U.S. 147, does not require a different function of elements in combination and to require such an improbability in a combination of mechanical elements as implied by this court here and as it held on December 6, 1966 in *Santa Anita Mfg. Corp.* v. *Lugash,* App. No. 20,267, is a denial of equal protection under the laws to inventors of mechanical combinations in that it places upon such inventors a greater burden than it does upon inventors of combinations in chemistry or electronics since the *A & P* case recognized mechanical elements do not usually take on some new quality or function when united as compared with elements in chemistry or electronics.

The Court's reliance on the necessity of an "unusual or surprising result" is in conflict with Graham.

The Eighth Circuit in *John Deere Co.* v. *Graham,* 333 F.2d 529, 535, found no "new or significantly different result" which the Supreme Court on appeal declared was not the correct test stating:

> "In 1964, the Eighth Circuit held, in the case at bar, that there was no new result in the patented combination and that the patent was, therefore, not valid . . . . We have determined that *neither circuit applied the correct test* . . .". 383 U.S. 1, 4. (Emphasis added.)

The Seventh Circuit in *Walt Disney* v *Niles,* supra, said, " 'usual and surprising result' as a controlling factor has gone with the 'flash of creative genius.' "

Holding the entire patent invalid deprives plaintiff of its property without due process.

At the original trial (Tr. Vol. I, 257) and by stipulation (Finding of Fact XII) subsequent to remand the issue of "invention," now non-obviousness, was restricted to claims 3, 5, 7 and 17, and these were the only claims adjudicated by the District Court. (Conclusion of Law IV, Judgment, par. 1.)

35 U.S.C. 282 provides:

> "Each claim of a patent . . . shall be presumed valid independently of the validity of other claims."

No testimony, arguments or issues as to the "obviousness" or "non-obviousness" of other claims was presented and holding the other 21 claims invalid at this time is not in accord with due process of law.

CONCLUSION

The court misconstrued the state of the art and the nature of Parker's advancement, both requisite to determining obviousness. The tests applied do not correctly measure the non-obviousness of the advancement, are in conflict with decisions of the Supreme Court, this court and other circuits and are unconstitutional as applied.

Respectfully submitted,

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JAMES T. HOFFMANN

Attorneys for Coe Manufacturing Company

CERTIFICATE OF COUNSEL

I certify that, in connection with the preparation of this Petition for Rehearing, I have examined Rule 23 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing Petition for Rehearing is well founded and it is not interposed for delay.

KENNETH S. KLARQUIST
Of Attorneys for Appellee-Cross-Appellant

No. 20662

United States
COURT OF APPEALS
For the Ninth Circuit

JEDDELOH BROTHERS SWEED MILLS, INC., a Corporation, OTTO JEDDELOH, FRED JEDDELOH,
Appellants,

v.

COE MANUFACTURING COMPANY, a Corporation,
Appellee,

and

COE MANUFACTURING COMPANY, a Corporation,
Appellee and Cross-Appellant,

v.

JEDDELOH BROTHERS SWEED MILLS, INC., a Corporation, OTTO JEDDELOH, FRED JEDDELOH,
Appellants and Cross-Appellees.

Appeal from the United States District Court for the District of Oregon

Civil No. 9702 (JUDGE SOLOMON)

RESPONSE TO PETITION FOR REHEARING

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No. 20662

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1. The Court correctly understood that Parker was obvious in view of the prior art.

Plaintiff attacks the Court's opinion by trying to make it appear that the opinion turned on whether Streeter discloses means for maintaining roll-stack alignment (now referred to in the Petition, p. 2, as means to "accommodate variations in height at the source"). In order to support this argument plaintiff has improperly ripped selected excerpts from the opinion.*

The whole thrust of the opinion is that even assuming all doubtful matters in Parker's favor, the patent did not meet the strict test of obviousness under Sec. 103 and the controlling cases.

The first error in plaintiff's argument is that it incorrectly reads into claims 3, 5, 7 and 17 some means to "accommodate variations in height at the source." There is no such limitation in those claims.

In any event, regardless of whether or not such

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* The quotation from the Streeter patent (Petition, p. 1, three lines from bottom) should read ". . . a stationary frame (not 'feed) section 14" [II.449, lines 7-8 (not Tr. IV)]. Petition page 2 first quotation from the Court's opinion, the word "critical" was omitted after "only." Also on page 2 the second quotation from the Court's opinion was not as indicated a complete sentence but plaintiff omitted the following clause ". . . such as shown by the Cross and Campbell patents at the infeed end."

These misquotations, while perhaps not as serious as others by plaintiff (Reply Br. Aplts. & Cross Aplees., pp. 16-17), are nevertheless always favorable to its argument.

reading in is permissible, Parker is still obvious in view of the prior art. Cross and Campbell, each of whom shows a vertically adjustable elevator for supporting stacked sheet material, clearly disclose such means to "accommodate variations in height at the source." The Court will also recall that plaintiff, in order to assert *infringement*, had to take the position throughout the proceedings that the Parker claims cover a separate elevator in front of the Jeddeloh machine (Ans. Br. Cross Aplt. & Aplee., pp. 29, 30; PX 54, II.353).*

Secondly, plaintiff's statement that the Court did not understand Streeter is wrong. The Court was completely correct in stating that Streeter has everything called for in the asserted claims except pinch rolls, and that these are shown in Cross or Campbell (Opg. Br. Aplts. & Cross Aplees., pp. 28, 29). Obviously if unit A** in Streeter is replaced by the pinch roll feed mechanism of Cross or Campbell, the machine will work precisely the way Parker does.

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* What is sauce for the goose is sauce for the gander so that in considering the question of *validity* of Parker's claims, Streeter's unit A is just as much a "vertically movable feed means" as Jeddeloh's separate elevator.

** Streeter's unit A (Fig. 1) has a "vertically movable feed means" (this is all that is called for in claim 17) in rolls 4 which are intermittently vertically moved by toggle links 6 actuated by arm 7 to lift sheets from belts 2 [II.448 (lines 75, 76, 91-96), 449 (lines 101-106)]. Conveyor mechanism B comprises a frame 16 which is vertically moved under an automatic control mechanism to deliver sheets to the decks of dryer C.

2. The correct criteria was applied in determining obviousness of Parker.

This Court correctly applied the test of obviousness discussed in *Graham* v. *John Deere*, 383 U.S. 1, 15 L. Ed. 2d 545. In *Graham* the Court expressly followed its prior decisions* and said that there was ". . . no change in the general strictness with which the overall test is to be applied.", and "The standard has remained invariable in this Court." (15 L. Ed. 2d at 557).

3. A. & P. and the decisions of this Court have held that for a combination of old mechanical elements to be patentable the elements must perform an additional or different function in combination than out of it.

Because the Parker patent has never been able to meet the foregoing test, plaintiff now argues that it does not exist, or that if it does, it is unconstitutional (Petition, pp. 3, 4). *A. & P.* did not originate this test but merely reiterated the longstanding case law as expressed in *Lincoln Engineering Co.* v. *Stewart-Warner*, 1938, 303 U.S. 545 and gave renewed vitality to the test (340 U.S. at 151, 152).

In a long line of cases, the most recent expression of which is *Santa Anita Mfg. Corp.* v. *Lugash*, No. 20,267, decided December 6, 1966, other panels of this Court have followed the same test and come up with the same answer as that of the present panel. Similar to the situation in *Lugash*, the district court

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* *Hotchkiss* v. *Greenwood*, 11 How. 248, and *Great A. & P. Tea Co.* v. *Supermarket Corp.*, 340 U.S. 147.

here never applied that test to Parker. Neither plaintiff nor the district court have ever suggested any new operation, function or result of the Parker patent except to feed *veneer* rather than some other sheet material. Such use of the equipment obviously is not patentable invention.*

Lugash also holds (p. 7 slip sheet) that ". . . the addition of another element of prior art cannot make the device patentable unless it then performs a new or surprising function." The addition of the Cross or Campbell feed to Streeter falls precisely within this proscription.

Paramount Publix Corp. v. *American Tri-Ergon Corp.*, 294 U.S. 464, relied on by plaintiff stands squarely for the proposition that:

> "The application of an old process to a new and closely analogous subject matter, plainly indicated by the prior art as an appropriate subject of the process, is not invention." (at 473)

Plaintiff's reliance on *Walt Disney Productions* v. *Niles Communications Center*, 7th Cir., 1966, 151 USPQ 528 is misplaced because, in that case at 531 ". . . both defendants' expert and the District Court apparently based their opinions [of obviousness] as of the time of trial." Because hindsight had been used the wrong test was employed. With respect to the court's statement that "unusual and surprising result as a controlling factor has gone with the flash of

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* *Griffith Rubber Mills* v. *Hoffar*, 9 Cir. 1963, 313 F.2d 1, and cases cited in Reply Br. Aplts. & Cross Aplees., p. 11.

creative genius," see Judge Castle's dissenting opinion in which he flatly contradicts the majority by reference to the controlling language in *U. S.* v. *Adams*, 383 U.S. 39 and the *A. & P.* case. Also see the later decided 7th Circuit case of *Strzalkowski* v. *Beltone Electronics Corp.*, Dec. 6, 1966, 151 USPQ 675 which held at 677 "The mere relocation of old elements, producing no new or unexpected result is not invention."

4. The Court resolved every secondary consideration with respect to indicia of non-obviousness in plaintiff's favor, and still found that Parker did not amount to patentable invention.

Even if the Parker patent satisfied a long felt need and was a commercial success, neither of which it was (Reply Br. Aplts. & Cross Aplees., pp. 5, 6; Opg. Br. Aplts. & Cross Aplees., p. 8), this Court correctly held that those factors were at best makeweights in close cases of patentability, and that where the alleged patentable improvement is obvious and invention clearly lacking, they are of no moment.*

Respectfully submitted,

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* *Farr Co.* v. *American Air Filter Co.*, 9 Cir., 1963, 318 F.2d 500.

No. 20724 √

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

KENNETH G. WALKER and NANCY M. WALKER,

Appellants,

vs.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION,

Appellee.

APPELLANTS' OPENING BRIEF

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Appellee.

APPELLANT'S OPENING BRIEF.

Come now the defendants and appellants, Kenneth G. Walker and Nancy M. Walker, and do respectfully pray of the Honorable United States Court of Appeals for the Ninth Circuit that the within cause be dismissed as to them and that this Court hold that the United States District Court, the Honorable Harry C. Westover, Judge Presiding, erred in denying the motion of these defendants and appellants for a dismissal of this action for want of jurisdiction.

I.

Chronological Statement Re Interlocutory Appeal.

(a) On *December 22, 1965* appellants filed in the United States District Court, Southern District of California, Central Division, their

> "Notice of Motion and Petition for an Order and Judgment of the Honorable Court Dismissing the Within Action as to Defendants, Kenneth G. Walker and Nancy M. Walker and Memorandum of Law in Support of Motion." [Clk. Tr. p. 1184.]

(b) On *January 10th and 11th, 1966* the motion to dismiss was heard and argued before the Honorable Harry C. Westover.

(c) On *January 14, 1966,* the United States District Court issued and filed its "Order Denying Motions to Dismiss and Certifying Controlling Question of Law Pursuant to 28 U.S.C. Sec. 1292(b)." [Clk. Tr. p. 1248.]

The aforementioned "Order" provides in part as follows:

> "The undersigned is of the opinion that this order involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from this order as authorized by 28 U.S.C. Sec. 1292(b) may materially advance the ultimate termination of this litigation . . ." [Clk. Tr. p. 1248.]

(d) On *January 21, 1966,* appellants filed in the United States Court of Appeals for the Ninth Circuit their "Application for Permission to Appeal Pursuant to 28 U.S.C. 1292(b)."

(e) On *February 1, 1966,* the United States Court of Appeals granted leave to appeal from interlocutory decision. (Before: Barnes, Jertberg and Ely, Circuit Judges.)

(f) On *February 4, 1966,* defendants and appellants filed their "Notice of Appeal." [Clk. Tr. p. 1251.]

(g) On *February 4, 1966,* defendants and appellants filed their "Designation of Record on Appeal." [Clk. Tr. p. 1254.]

(h) On *February 4, 1966,* defendants and appellants filed their "Points to be Relied Upon on Appeal." [Clk. Tr. p. 1259.]

(i) On *February 8, 1966*, "Application of Defendants and Appellants, Kenneth G. Walker and Nancy M. Walker for Order Staying Trial, Pretrial, Deposition and Interrogatory Proceedings Pending Appeal" was filed in the Court of Appeals.

(j) On *February 10, 1966*, the Honorable Court of Appeals filed its "Order on Motion" staying the trial and pre-trial pending final determination of the appeal. (Before: Jertberg, Koelsch and Ely, Circuit Judges.)

(k) On *March 15, 1966*, defendants and appellants filed in the United States Court of Appeals their "Statement of Point and Designation of Record."

II.

Error as to Jurisdiction.

The Honorable United States District Court erred by its order made on January 14, 1966, denying the motion of defendants and appellants to dismiss and in deciding that the United States District Court has jurisdiction of this action.

III.

Brief Statement of Facts.

(a) The within action is one to foreclose numerous Deeds of Trusts securing numerous Notes.

(b) All of the notes were made, executed and delivered within the State of California.

(c) All of the Deeds of Trust were made, executed and delivered within the State of California.

(d) *None* of the notes were executed by defendants and appellants Kenneth G. Walker or Nancy M. Walker.

(e) No guarantees of any of the notes or obligations were ever executed by defendants and appellants Kenneth G. Walker or Nancy M. Walker.

(f) No federal question is involved.

(g) The Complaint seeks a deficiency judgment against appellants, Kenneth G. Walker and Nancy M. Walker, on the grounds that the corporate makers of the Notes were "alter egos" of said defendants, and that the total plan concerning the Notes and Trust Deeds in question constituted a "joint venture" in which the corporate makers of the Notes and the individuals Kenneth G. Walker and Nancy M. Walker were engaged.

(h) All of the Notes, secured by such deeds of trust, were made, executed, delivered and payable in the State of California.

(i) All property securing such Notes is located in Orange County, State of California.

(j) Plaintiff sues as an assignee of such Notes.

(k) All property described or referred to in the numerous deeds of trust is located in the County of Orange, State of California.

(l) At the time the various notes and deeds of trust were made, executed and delivered, all parties thereto were residents of the State of California.

IV.

Plaintiff's Alleged Basis for Jurisdiction.

Plaintiff has commenced these proceedings in the United States District Court, a Court which has no jurisdiction over the the subject matter or over the defendants.

Plaintiff erroneously bases the jurisdiction of the Honorable District Court on the following grounds:

1. That *28 U.S.C. Section 1444* relating to a United States tax lien authorizes jurisdiction.

2. That plaintiff is a wholly owned government corporation as referred to in *31 U.S.C. Section 846.*

3. That plaintiff is an instrumentality of the United States.

4. That *12 U.S.C. Section 1725* authorizes the plaintiff to bring the within action in the United States District Court.

5. That *28 U.S.C. Section 1345* and *12 U.S.C. Section 1437 (b)* authorize the plaintiff to bring this action in the United States District Court. [Pltf. Complaint, Clk. Tr. p. 2; p. 4, lines 9-29 incl.]

The jurisdictional issues involved will hereafter be discussed separately.

V.

28 U.S.C. 1444 Does Not Confer Jurisdiction in the United States District Court.

28 U.S.C. 1444 provides as follows:

> "Any action brought under *Section 2410* of this title *against* the United States in any State Court may be removed by the United States to the District Court of the United States for the District and Division in which the action is pending." (Italics added.)

28 U.S.C. 2410 relates to property on which the United States has or claims a lien and provides, among other things, for the manner in which a lien of the United States may be extinguished.

Plaintiff erroneously bases jurisdiction under *28 U.S.C. 1444* and *2410* upon the allegations set forth in Paragraph 2295 of the Complaint [Complaint, p. 4, line 29, Clk. Tr. p. 2.]

Paragraph 2295 of the Complaint alleges that the defendant, United States of American claims two income tax liens on Lot 68 of Tract No. 3111, City of Buena Park, County of Orange. [See *448th Cause of Action, Paragraph 2291 to 2295 inclusive, p. 893, line 12 to p. 895, line 6.*]

The alleged liens are claimed against Charles R. Shinnefield, aka Russ Shinnefield, Ingrid M. Shinnefield and Charles R. Shinnefield dba Chas. R. Shinnefield Plastering Co.

Nowhere is it alleged or claimed that appellants, Kenneth G. Walker and Nancy M. Walker, claim or have any interest in said Lot 68 and appellants are not, even remotely, involved with any determination relating to such claimed liens.

In addition, the claimed liens relate only the *448th* cause of action and to no other claims alleged in the Complaint which consists of *467 causes of action*.

These appellants have no interest of any nature in the property referred to in the 448th cause of action (Lot 68); they have no interest in and no involvement in, the tax liens alleged; the tax lien issue, if such is in issue, does not relate to the other alleged 466 causes of action.

28 U.S.C. 2410 is *not* in itself a grant of jurisdiction but, when jurisdiction exists, constitutes a waiver of immunity by the United States and consent by the United States to be sued in an action to foreclose a mortgage or Deed of Trust upon which the United States claims a lien. (*Gerth v. United States,* D.C. Cal., 1955, 132 F. Supp. 894.)

District Court jurisdiction in this case as to Kenneth G. Walker and Nancy M. Walker cannot be based upon

a cause of action involving property and claimed tax liens in which they do not have, and are not alleged to have, any interest.

28 U.S.C. 1444 and *28 U.S.C. 2410* do not confer jurisdiction on the United States District Court. These statutes are a waiver of sovereign immunity only. (*Wells v. Long* (9th Circuit 1947), 162 F. 2d 842, at 844; See also *Remiss v. United States,* First Circuit 1960, 273 F. 2d 293, 294; *Cooper Agency, Inc. v. McLeod,* 1964, 235 F. Supp. 276, 284.)

VI.

The Allegation That Plaintiff Is a Wholly Owned Government Corporation as "Referred to in 31 U.S.C. 846" Does Not Confer Jurisdiction in the United States District Court.

31 U.S.C. 846 provides, in part, as follows:

> "*As used in this chapter,* the term 'wholly owned government corporation' means . . . Federal National Mortgage Association; . . . Federal Savings and Loan Insurance Corporation. . . ." (Italics added.)

It is called to the attention of the Honorable Court that the referral to the plaintiff as a "wholly owned government corporation" relates only, and is limited to, the provisions of *Chapter 14* of *31 U.S.C.* (*i.e. "As used in this chapter".*)

A reading of *Chapter 14, 31 U.S.C.* indicates that it does not even remotely pertain to jurisdiction, but only relates to internal operations of the numerous corporations listed in *31 U.S.C. 846 re* auditing and reporting procedures. The referral to the plaintiff as a

"wholly owned government corporation" is a referral for descriptive and designation purposes only for the uses and only as such term is used in *Chapter 14, 31 U.S.C. 846.*

Specifically, plaintiff is not a wholly owned government corporation.

It is obvious that the use of the words "wholly owned government corporation" as used in 31 U.S.C. 846 are only a convenient term for referring to the various corporations regulated by *Chapter 14 of Title 31 re* accounting and reporting procedures. The sole purpose of *Chapter 14, 31 U.S.C. 846* is set forth and declared in *31 U.S.C. 841:*

> ". . . to bring government corporations and their transactions and operations under annual scrutiny by the Congress and provide current financial control thereof."

31 U.S.C. 846 is certainly not a grant of jurisdiction to the United States District Court nor was it ever intended that the wording of such section be used in interpreting jurisdictional statutes.

We have called to the attention of the Court that the *"Federal National Mortgage Association"* is referred to in *31 U.S.C. 846* as a "wholly owned government corporation."

With relation to the Federal National Mortgage Association, it is quite obvious that such is not a wholly owned government corporation. Its shares of capital stock are traded over the counter. The United States Government owns approximately $500,000.00 of the preferred shares of stock and approximately 1,000,000

shares of the common stock of the Federal National Mortgage Association are traded over the counter and are owned by private individuals and entities and not by the United States.

The inclusion of the Federal National Mortgage Association as a corporation within *31 U.S.C. 846* makes it quite obvious that such corporations are termed "wholly owned government corporations" only for the purposes of Chapter 14 and for no other purpose.

The Court may take judicial notice of the ownership of the capital stock of public corporations. (*Federal Savings and Loan Insurance Corporation v. Third National Bank* (B.C. M.D. Tenn. 1945), 60 F. Supp. 110, 114.) In taking judicial notice, the Court may "refresh its memory" by reference to any reliable source of information. (*Greeson v. Imperial Irrigation District* (9th Cir. 1952), 59 F. 2d 529, 531.) A common source of information for judicial notice regarding public corporations is the official publications of the corporation itself. (*Fletcher v. Jones* (D.C. Cir. 1939), 105 F. 2d 58, 61, 62.)

It will be shown that the United States is not the owner of any of the capital stock of plaintiff and that plaintiff comes within the prohibition of *28 U.S.C. 1349,* which provides as follows:

> "The District Courts shall *not* have jurisdiction of any Civil action by or against any corporation upon the ground that it was incorporated by or under an Act of Congress, *unless the United States is the owner of more than one-half of its capital stock.*" (Italics added.)

VII.

12 U.S.C. 1725 Does Not Empower, Authorize or Grant the United States District Court Jurisdiction of the Within Matter.

In 1934 the Federal Savings and Loan Insurance Corporation came into being. The statute creating the corporation, *12 U.S.C. 1725,* as originally worded in 1934, read, in part, as follows:

> ". . . (c) On June 7, 1934 the corporation shall become a body corporate, and shall be an instrumentality of the United States, and as such, shall have power —
>
> (1) to adopt and use a corporate seal.
>
> (2) to have succession until dissolved by Act of Congress.
>
> (3) to make contracts.
>
> (4) *to sue and be sued, complain and defend, in any Court of law or equity, State or Federal. . . .*" (Italics added.)

The quoted section was amended in 1935, 1948, 1950, 1954, 1955 and 1960 but the important amendment occurred in 1954.

In 1954, *12 U.S.C. 1725* was amended and such amendment affected in a material and important manner the above quoted section. *Section 1725* as amended in 1954 now reads, in part, as follows:

> ". . . (c) On June 27, 1934, the corporation shall become a body corporate, and shall be an instrumentality of the United States, and as such, shall have power —
>
> (1) to adopt and use a corporate seal.

(2) to have succession until dissolved by Act of Congress.

(3) to make contracts.

(4) *to sue and be sued, complain and defend, in any Court of competent jurisdiction in the United States or its territories or possession or the Commonwealth of Puerto Rico* and may be served by serving a copy of process on any of its agents, or any agent of the *Home Loan Bank Board* and mailing a copy of such process by registered mail to the corporation at Washington, District of Columbia. . . ." (Italics added.)

A comparison of the quoted paragraphs indicates that it was the intention of the Congress in its 1954 amendment to specifically limit the jurisdiction of the Federal Courts as it applied to matters involving the Federal Savings and Loan Insurance Corporation, where no federal question is involved.

The section expressly deleted the words "*in any Court of law or equity, State or Federal*" and in their place and stead inserted the words "*in any Court of competent jurisdiction in the United States or its territories or possession of the Commonwealth of Puerto Rico. . . .*"

It was the intention of Congress to allow actions not involving a federal question to be brought in a "*court of competent jurisdiction*". The within action being one to foreclose Notes and Deeds of Trusts, made, executed and payable in the State of California, requires an examination of the applicable California law relating to Notes secured by Deeds of Trusts.

Article VI, Section 5 of the Constitution of the State of California provides as follows:

> ". . . The process of Superior Court shall extend to all parts of the States; provided, that all actions for the recovery of the possession of, quieting the title to, or for the enforcement of liens upon real estate, shall be commenced in the County in which the real estate, or any part thereof, affected by such action or actions, is situated. . . ."

The constitutional provision pertains to Deeds of Trust. (*Appel v. Hubbard,* 155 Cal. App. 2d 639, 316 P. 2d 164 (1957).)

Section 726 of the Code of Civil Procedure of the State of California provides as follows:

> "There can be but one form of action for the recovery of any debt, or the enforcement of any rights secured by mortgage upon real property, which action must be in accordance with the provisions of this chapter. . . ."

Article VI, Section 5 of the Constitution of the State of California, sets forth a rule of fundamental and basic jurisdiction and if an action within its terms is not commenced in the proper County, the Court has no jurisdiction of the subject matter. (*Rogers v. Cady,* 104 Cal. 288, 38 Pac. 81; *Southern Pacific Railway Co. v. Pixley,* 103 Cal. 118, 37 Pac. 194; *Fritts v. Camo,* 94 Cal. 393, 29 Pac. 857.)

> "First, in 1933, the legislature enacted Section 396 of the Code of Civil Procedure, which, as amended in 1935, provides that when an action or proceeding is commenced in a Court which lacks jurisdiction, 'if there is a Court of this State which has such jurisdiction, the action or proceeding shall not be dismissed . . . but shall, on the application of

either party, or on the Court's own motion, be transferred to a Court having jurisdiction of the subject matter . . . and it shall thereupon be entered and prosecuted in the Court to which it is transferred as if it had been commenced therein, all prior proceedings being safe.' In further recognition of the fact that, prior to its enactment, the penalty of dismissal for failing to file the action in the correct Court, entailed not only loss of time, energy and money in the prosecution of an action which constituted a nullity, but often the loss of any remedy through passage of the Statute of Limitation, Section 396 provided further, 'an action or proceeding which is transferred under the provisions of this section shall be deemed to have been commenced at the time the Complaint or petition was filed in the Court from which it was originally transferred.' *Of course, even today, if neither Court nor counsel in an improperly commenced action notice the defect, the plaintiff's rights may still be lost, notwithstanding Section 396, if the action proceeds to final judgment, thereby precluding transfer.*" (*Vol. 1, California Pleading, Civil Actions, Sec. 261, pp. 172-173, Chadbourn, Grossman-VanAlstyne, 1961 Edition.*) (Italics added.)

"As any other situation in which the application of *Section 5 of Article VI of the Constitution* is in question, *the determination is reached from an analysis of the Complaint.* 'When it is alleged that the party against whom a personal judgment is sought is also interested in the real property, and a foreclosure of this interest is sought, the action, as to such party, is one to foreclose a lien. . . .'"

Vol. 1, California Pleading, Sec. 266, p. 182, Chadbourn, Grossman-VanAlstyne, citing Case v. Kirkwood, 119 Cal. App. 207, 6 P. 2d 110, 111.)

The Constitution of the State of California and the California law relating to Notes and Deeds of Trust require that the within action be commenced and brought in the Superior Court of Orange County and further require and demand that no other Court has jurisdiction.

No law of the United States has altered, changed or modified the requirement that this action as to Kenneth G. Walker and Nancy M. Walker must be commenced in the Superior Court in which the land encumbered by the Deeds of Trusts is located.

We have present in this cause a state constitutional provision requiring that an action such as in the within proceedings must be brought in the Superior Court of Orange County. *Title 12, U.S.C. Section 1725,* as amended, has not changed this jurisdictional requirement and is expressly consistent with such jurisdictional requirement.

The Notes involved in this litigation were originally executed in favor of Long Beach Federal Savings and Loan Association and such Notes are alleged by the plaintiff to have been assigned by such association to plaintiff.

Under the law and facts in this case, only the Superior Court in the County of Orange (the County wherein the land encumbered by the Deeds of Trust is located) has jurisdiction in this matter.

The *Federal Savings and Loan Insurance Corporation,* among other things, provides insurance to savings

and loan associations. The *Federal Deposit Insurance Corporation* is its counterpart with relation to providing insurance to banks. *12 U.S.C. Section 1819,* which relates only to the Federal Deposit Insurance Corporation is almost identical to *12 U.S.C. Section 1725* which relates to the Federal Savings and Loan Insurance Corporation.

However, the statute relating to the Federal Deposit Insurance Corporation differs in a most important fashion from its counterpart. It is at once noted that *12 U.S.C. Section 1819* grants greater jurisdiction to Federal Deposit Insurance Corporation matters than *Title 12 U.S.C. 1725* grants to the Federal Savings and Loan Insurance Corporation. The similarity between the statutes and the obvious difference is at once apparent.

Title 12 U.S.C. 1819 provides in part as follows:

> "Upon June 16, 1933 the corporation shall become a body corporate and as such shall have power— First. To adopt and use a corporate seal. Second. To succession until dissolved by an act of Congress.
>
> Third. To make contracts.
>
> Fourth. *To sue and be sued, complain and defend in any Court of law or equity, state or federal. All suits of a civil nature, at law or in equity, to which the corporation shall be a party shall be deemed to arise under the laws of the United States;* provided, any such suit to which the corporation is a party in its capacity as receiver of a State Bank and which involves only the rights or obligations of depositors, creditors, stockholders,

> and such State Bank under state law shall not be deemed to arise under the laws of the United States. . . ." (Italics added.)

Section "Fourth" of *12 U.S.C. 1819* differs greatly from Section (4) of *12 U.S.C. 1725.* The Federal Deposit Insurance Corporation has the right to sue and be sued in any Court of law or equity, state or federal and the statute expressly provides that any suits involving the Federal Deposit Insurance Corporation will be deemed to arise under the laws of the United States. No such comparable provision is found in 12 U.S.C. 1725 relating to the Federal Savings and Loan Insurance Corporation.

Prior to its amendment, *12 U.S.C. 1725* (relating to the Federal Savings and Loan Insurance Corporation) used almost the identical wording as now appears in *12 U.S.C. 1819, i.e.*:

> "(4) To sue and be sued, complain and defend, in any Court of law or equity, state or federal. . . ."

However, Section *12 U.S.C. 1725,* as amended in 1954, has deleted those words and the statute now reads:

> "(4) To sue and be sued, complain and defend, in any Court of *competent jurisdiction* in the United States. . . ." (Italics added.)

The Federal Deposit Insurance Corporation was created prior to the Federal Savings and Loan Insurance Corporation and though the statutes are extremely similar, they do differ greatly with relation to jurisdiction. The Federal Deposit Insurance Corporation was granted greater latitude in jurisdiction than that granted to the Federal Savings and Loan Insurance Cor-

poration, and such difference is apparent by a reading of the two statutes.

The reason for the existing difference between these statutes is logical. The activities of savings and loan associations center primarily around dealings in real property. In other words, a savings and loan association engages in operations which are local and peculiar to the particular state in which it is situated. Congress has merely recognized the local nature of these operations by allowing each state authority to determine proper jurisdiction in an action brought by the Federal Savings and Loan Insurance Corporation where no federal violation is involved.

Cases involving the Federal Deposit Insurance Corporation are not relevant to the issue now before the Court for two reasons. First, the aforementioned 1954 amendment to *12 U.S.C. 1725* expressed a congressional intent contrary to that expressed by *12 U.S.C. 1819* relating to banks. Second, *12 U.S.C. 1819* provides that actions involving the Federal Deposit Insurance Corporation are deemed to arise under the laws of the United States. No such provision exists in *12 U.S.C. 1725* relating to the Federal Savings and Loan Insurance Corporation.

In the case of *Federal Savings and Loan Insurance Corporation v. Third National Bank in Nashville* (Civil Action No. 337—District Court, M.D. Tenn., Nashville Division), decided April 5, 1945 and reported in 60 F. Supp. 110 the same issue was before the Court. This case was decided prior to the time that 12 U.S.C. 1725 was amended in 1954. The Federal Savings and Loan Insurance Corporation in the above men-

tioned case sought to base jurisdiction of the District Court upon the following grounds:

(1) That plaintiff is a corporate instrumentality of the government of the United States incorporated by an Act of Congress wherein the government of the United States is the owner of more than one-half of its capital stock. *(28 U.S.C. 42.)*

(2) That the act of Congress by and under which the plaintiff was created conferred federal jurisdiction by express grant. *(12 U.S.C. 1725(c)(4)).*

(3) That this is a suit of a civil nature wherein the matter in controversy exceeds, exclusive of interest and cost, the sum or value of $3,000.00 and arises under the laws of the United States. (28 U.S.C. Section 41 (1)(a).)

The defendant moved to dismiss for lack of jurisdiction over the subject matter. In support of its motion, defendant stated that the Court was without jurisdiction for the reason that while the plaintiff is a corporation created by an Act of Congress, its capital stock is not owned by the government of the United States, but is, in fact, owned by the Home Owners Loan Corporation, a separate corporation, the stock of which is in turn owned by the government of the United States; that by reason of the provisions of *Title 28, U.S.C. Section 42*, the District Court was without jurisdiction because the government was not in fact the owner of more than one-half of the capital stock of plaintiff. The Court referred to *12 U.S.C. 1725* and further referred to *28 U.S.C. Section 42,* which provided as follows:

> "No District Court shall have jurisdiction of any action or suit by or against any corporation upon

> the ground that it was incorporated by or under an act of Congress. This section shall not apply to any suit, action or proceeding brought by or against a corporation incorporated by or under an act of Congress wherein the government of the United States is the owner of more than one-half of its capital stock."

(Memo: *28 U.S.C. 42* was recodified in 1948 and now exists as *28 U.S.C. 1349.*)

Plaintiff's position was that it was an instrumentality of the government of the United States, was created by an Act of Congress and empowered to sue and be sued, complain and defend, in any Court of law or equity, federal or state, and that by reason of the fact that the government of the United States is the owner of the entire capital stock of the Home Owners Loan Corporation, that both the Home Owners Loan Corporation and plaintiff are parts of the government of the United States and the suit therefore was one arising under the laws of the United States.

The Court stated that *until February 13, 1925* it was well settled that a suit for whatever reason by or against a corporation created under an Act of Congress with power to sue or be sued in any Court, state or federal, was a suit arising under the laws of the United States; that under the decisions of the Supreme Court such a suit arises under the laws of the United States, not because of the character of the suit, nor the relief demanded, but merely because the plaintiff suing or the defendant sued is a federal corporation with power to sue or be sued in any Court, state or federal. (Citing *Osborn v. Bank of United States,* 9 Wheat. 738, 6 L.

Ed. 204; *Union Pacific Railway Company v. Myers,* 115 U.S. 1, 5 S. Ct. 1113, 29 L. Ed. 319.)

On February 13, 1925, the statute above quoted, *i.e. Title 28, U.S.C. Section 42* was enacted, changing the rules of law in effect up to that date. The Court further stated that the issue was whether or not the ownership of plaintiff's stock by the Home Owners Loan Corporation amounts to ownership by the government of the United States. The Home Owners Loan Corporation was created by Act of June 13, 1933, *Title 12 U.S.C. Section 1463,* which provides that the stock of the Home Owners Loan Corporation

> "shall be subscribed for by the Secretary of the Treasury on behalf of the United States, . . . the corporation shall issue to the Secretary of the Treasury receipts for payment by him for or on account of such stock and such receipts shall be evidence of the stock ownership of the United States. . . ."

The Court held that while the Home Owners Loan Corporation is an instrumentality of the government of the United States it is at the same time a properly organized corporation having complete corporate jurisdiction. (Citing *Fletcher v. Jones,* 70 App. D.C. 179, 105 F. 2d 58; *United States ex rel. Fletcher v. Fahay,* 73 App. D.C. 257, 121 F. 2d 28.)

The government did not have direct ownership of the shares of stock of the Federal Savings and Loan Insurance Corporation and even though the United States might be the owner once removed the stock of the Federal Savings and Loan Insurance Corporation was in fact owned by the Home Owners Loan Corporation and

not by the United States even though the United States owned all of the stock of the Home Owners Loan Corporation.

Likewise, the Court affirmed that *statutes relating to the jurisdiction of the United States Courts are to be strictly construed.*

> "The effect of the act of February 13, 1925 was to remove from the jurisdiction of the federal courts such cases arising under the laws of the United States as suits by or against Federal Corporations in which the government was not the owner or more than one-half of the capital stock, thereby further limiting the jurisdiction of the courts of the United States. *It is also well settled that statutes relating to the jurisdiction of the United States are to be strictly construed. Elgin v. Marshall,* 106 U.S. 578, 1 Sup. Crt. 484, 27 Law Ed. 249; *Grace v. American Central Insurance Co.,* 109 U.S. 278, 3 Sup. Crt. 207, 27 Law Ed. 932; *Healy v. Ratta,* 292 U.S. 263, 54 Sup. Crt. 700, 78 Law Ed. 1248." (Italics added.)

The Home Owners Loan Corporation being a distinct, separate legal entity and owning the capital stock of the Federal Savings and Loan Insurance Corporation resulted in such stock constituting a part of the assets of the Home Owners Loan Corporation and such stock was liable for the debts of the Home Owners Loan Corporation and *was subject to attachment and execution on the part of creditors.* If the stock were owned by the government of the United States, it would not be subject to attachment on the part of a general creditor. The Court further stated that it was not at all unusual in the business world for corporations to own stock in

other corporations and that it had never been determined that a stockholder of a parent corporation by reason of his ownership of said stock thereby becomes a stockholder in the subsidiary corporation.

The Court held that the United States was not the owner of more than one-half of the capital stock of the Federal Savings and Loan Insurance Corporation and that therefore the District Court did not have jurisdiction on that basis and the mere fact that the Federal Savings and Loan Insurance Corporation was created by an Act of Congress did not grant jurisdiction to the District Court.

The allegations that the matter in controversy exceeded the sum of $3,000.00 or that jurisdiction was based upon the issues because they involved issues arising under the "laws of the United States", or that the Federal Savings and Loan Insurance Corporation was an instrumentality of the United States, or that both the Federal Savings and Loan Insurance Corporation and the Home Owners Loan Corporation were a part of the "government of the United States", were held insufficient to grant or reflect jurisdiction in the United States District Court.

The Federal Savings and Loan Insurance Corporation contended that the case arose under the laws of the United States and reflected a violation of *12 U.S.C. Section 1731(e)* in that the defendant violated a Federal Statute. On the argument relating to the violation of a federal statute, the District Court held that the Complaint was one basically to enforce a violation of the state common law or state law and not one to enforce the violation of a federal law.

The Court further stated that the jurisdiction of the United States District Court is not a special privilege conferred upon governmental agencies; jurisdictional statutes are not to be considered in any protective sense, and that due regard for the independence of state governments required that federal courts scrupulously confine their own jurisdiction to the precise limits defined by statute. It was held that whether a suit is within Federal District Court jurisdiction as arising under federal law must appear from plaintiff's pleadings and not from defenses interposed or anticipated and that a genuine and present controversy, not merely a possible or conjectural one, must exist with reference to federal jurisdiction on the ground that the federal law was involved.

The District Court in its opinion specifically held that no violation of federal law was involved.

The cases referred to was appealed and reversed in *Federal Savings and Loan Insurance Corporation v. Third National Bank in Nashville,* No. 10047, 10048, Circuit Court of Appeals, 6th Circuit, February 9, 1946, 153 F. 2d 678; the reversal was only on the ground that the Federal Savings and Loan Insurance Corporation was seeking to enforce the violation of a *federal statute* and that therefore, the litigation arose "under the laws of the United States within the meaning of Section 1(a) of the Judiciary Act of 1875. *28 U.S.C. Section 41(1)(a).* (Since repealed.) Because the Complaint alleged that the defendant had violated a federal statute, the Court on appeal held that it arose under the laws of the United States and the District Court had jurisdiction. The reversal was made solely upon that one ground and the Court expressly did not reverse upon any other ground.

In the within litigation the defendant and appellants, Kenneth G. Walker and Nancy M. Walker, are not charged or accused of violating any federal law. In fact, no federal law is involved in these proceedings.

The opinion of the District Court in Federal Savings and Loan Insurance Corporation v. Third National Bank in Nashville, 60 F. Supp. 110, *has never been overruled or criticized with relation to its position on the Federal Savings and Loan Insurance Corporation where the litigation does not expressly involve the violation of a federal statute.*

The Court properly held that plaintiff was not (i) a corporate instrumentality of the government of the United States incorporated by an act of Congress wherein the government of the United States is the owner of more than one-half of its capital stock and (ii) that *12 U.S.C. 1725(c)(4)* did not confer jurisdiction in the District Court. The reversal did not affect or alter the decision of the District Court on such points of law.

The *Federal Savings and Loan Insurance Corporation v. Third National Bank in Nashville* cases, cited *supra,* are even more germain when one realizes that *12 U.S.C. 1725* was amended in 1954, as aforesaid, and jurisdiction relating to actions involving the Federal Savings and Loan Insurance Corporation was expressly limited to "*courts of competent jurisdiction.*"

The Home Owners Loan Corporation was dissolved and abolished by the *Act of June 30, 1953, C. 170 Section 21, 67 Statutes 126,* and the title to any real property held by the Home Owners Loan Corporation was transferred to the United States of America. The capi-

tal stock of the Federal Savings and Loan Insurance Corporation (formerly owned by the Home Owners Loan Corporation) was retired and purchased back by the Federal Savings and Loan Insurance Corporation, and payment made to the Treasury of the United States for such stock.

The United States does not own any shares of stock in the Federal Savings and Loan Insurance Corporation but is in the position of directing and supervising the Federal Savings and Loan Insurance Corporation through the Federal Home Loan Bank Board, which acts as a board of trustees. The Federal Savings and Loan Insurance Corporation is wholly self-supporting. (*Publication of the Federal Home Loan Banks, 1961, entitled "The Federal Home Loan Bank System" Library of Congress, Catalogue Card No. 61-60073, pp. 24 through 26 incl.*)

The Federal Home Loan Bank, also supervised by the Federal Home Loan Bank Board, issues capital stock to member institutions who receive dividends on their investments which are paid out of earnings.

> "Originally, nearly $125,000,000.00 of capital stock had been provided by the federal government. By 1948, however, member-held stock exceed the government's investment in the banks and in July 1951 the last of the treasury-held stock was retired. Since then, capital stock held by member institutions has risen sharply. By the end of 1960, member institutions had invested $989,000,000.00 in the capital

> stock of their respective Federal Home Loan Banks." (*The Federal Home Loan Banks System,* cited *supra,* p. 30.)

The obligations of the Federal Home Loan Bank are neither direct or indirect liabilities of the United States. The banks are subject to Federal Taxes but are exempt from most state and local taxation of principal and interest. (*The Federal Home Loan Bank System,* cited *supra,* p. 31.)

The Federal Savings and Loan Insurance Corporation, insofar as its capital stock is concerned, is not owned by the United States; it is controlled and operated by the Federal Home Loan Bank Board as is the Federal Home Loan Bank.

The Federal Home Loan Bank Board is composed of three members appointed by the President by and with the advice and consent of the Senate. (*12 U.S.C. 1437.*)

> "The Federal Home Loan Bank Board was originally created for the sole purpose of directing and supervising the operations of the bank's system. In the course of time, the Congress assigned additional related duties to the Board. In 1933, when it authorized the establishment of Federal Savings and Loan Associations, the Congress placed the responsibility for chartering and supervising these institutions in the Board. In 1934, when the law providing for the insurance of accounts in Savings and Loan Associations was enacted, the Congress designated the Federal Home Loan Bank Board as the Board of Trustees of the Federal Savings and

> Loan Insurance Corporation, which was created to administer this program. For many years the Board was also in charge of the operation of the Home Owners Loan Corporation, which was established in 1933 as an emergency agency for the refinancing of home loans and which has long since been liquidated . . . *the entire operation of the Bank Board is self-supporting and requires no appropriations from the federal treasury. All of the Board's expenses are paid from assessments on the Federal Home Loan Banks and on the Federal Savings and Loan Insurance Corporation, (which meets its own expenses from insurance premiums charged to insured institutions)*; from fees for the examination of those institutions which are subject to the Board's supervision; and from similar charges. . . ." (*The Federal Home Loan Bank System,* cited *supra,* pp. 10 and 11.) (Italics added.)

The Federal Savings and Loan Insurance Corporation is a separate, profit making, self-supporting corporate entity supervised by the Federal Home Loan Bank Board, acting as a Board of Trustees. This situation existed at the time of the decisions in *Federal Savings and Loan Insurance Corporation v. Third National Bank in Nashville* (1945), cited *supra.*

12 U.S.C. 1725, as amended, does not confer jurisdiction upon the United States District Court as to appellants Kenneth G. Walker and Nancy H. Walker.

VIII.

28 U.S.C. Section 1345 and 12 U.S.C. Section 1437 (b) Does Not Empower or Authorize or Grant the United States District Court Jurisdiction of the Within Matter.

Title *28 U.S.C. Section 1345* provides as follows:

> "*Except as otherwise provided by act of Congress,* the District Courts shall have original jurisdiction of all civil actions, suits or proceedings commenced by the United States, or by any agency or officer thereof *expressly authorized to sue by Act of Congress.*" (Italics added.)

Title 28 U.S.C. Section 1349 provides as follows:

> "The District Courts shall *not* have jurisdiction of any civil action by or against any corporation upon the ground that it was incorporated by or under an act of Congress, unless the United States is the owner of more than one-half of its capital stock." (Italics added.)

Title 28 U.S.C. Section 1349 is an express limitation upon the jurisdiction of the District Courts and limits *28 U.S.C. 1345,* and *12 U.S.C. 1725(c)(4).*

The United States does not own any of the capital stock of the Federal Savings and Loan Insurance Corporation and is not liable for any of its obligations.

12 U.S.C. 1437(b) provides as follows:

> "The Home Loan Bank Board which was, pursuant to reorganization plan No. 3 of 1947, established and made a constituent agency of the Housing and Home Finance Agency shall, from August 11, 1955, cease to be such a constituent agency and shall be an independent agency (including the Fed-

eral Savings and Loan Insurance Corporation) in the executive branch of the Government; provided, that the functions vested in the chairman of said Board under Clause (2) of the last sentence of subsection (b) of Section 2 of said reorganization plan are transferred to said Board. Notwithstanding any other provision of law, said Board, the Chairman thereof except as herein otherwise provided, and the Federal Savings and Loan Insurance Corporation, respectively, shall have and may exercise all functions which they respectively had or could exercise, immediately *prior to August 11, 1955* or immediately prior to *June 24, 1954*. Said Board shall annually make a report of its operations (including those of the Federal Savings and Loan Insurance Corporation) to the Congress as soon as practicable after the first day of January each year. The name of the Home Loan Bank Board is changed to 'Federal Home Loan Bank Board'."

A reading of the above quoted section definitely reflects that it was not the intention of Congress to extend or grant jurisdiction by virtue of enacting *12 U.S.C. 1347* in that it specifically refers to the Federal Savings and Loan Insurance Corporation having no greater rights than it had prior to August 11, 1955 or prior to June 24, 1954.

The amendment of *12 U.S.C. 1725* which limited jurisdiction of the Federal Savings and Loan Insurance Corporation in 1954 is consistent with the wording contained in *12 U.S.C. 1437. The language used in 1437(b) has nothing whatever to do with jurisdiction and relates only to the internal functions of the Federal Home Loan Bank Board.*

In addition, it is to be noted that *28 U.S.C. 1345* at the very outset contains the words "*Except as otherwise provided by Act of Congress*". It is quite obvious that Congress in enacting *12 U.S.C. 1725,* by enacting and recodifying *28 U.S.C. 1349* and by its amendment of *12 U.S.C. 1725* in 1954, has "*otherwise provided*".

Further, in ascertaining the intent and meaning of Congress in using the word "agency" in *28 U.S.C. 1345,* we must look to *28 U.S.C. 451,* which defines terms as used in Title 28:

> "As used in this title. . . .
> The term 'agency' includes any department, independent establishment, commission administration, authority, board or bureau of the United States or any corporation in which the United States has a proprietary interest, unless the context shows that such term was intended to be used in a more limited sense."

In interpreting *28 U.S.C. 1345,* the meaning of the word "agency" must be obtained and used as set forth in *28 U.S.C. 451.*

It is quite obvious that a reasonable interpretation *of 28 U.S.C. 451* wherein it uses the words "department, independent establishment, commission, administration, authority, board or bureau of the United States" is not referring to the plaintiff or to any corporation organized under an Act of Congress, or any other type of corporation, which may or may not be an instrumentality or agency of the United States because the statute then goes on and uses the words "or any corporation in which the United States has a proprie-

tary interest, unless the context shows that such term was intended to be used in a more limited sense."

The latter portion of *28 U.S.C. 451* applies to corporations and the former portion does not. In determining the intent of Congress, and ascertaining what is meant by the use of *"proprietary interest,"* it is quite obvious that Congress was not talking about mere ownership. If it were, the United States could make any corporation, including General Motors, an agency of the United States by merely obtaining one share of stock in such corporation and such would give to the United States a proprietary interest. Therefore, in determining the use of the word "proprietary interest" we must ascertain the intention of Congress from the statutes. Such statute is readily available in *28 U.S.C. Section 1349* which provides that such corporate instrumentality, to enable it to bring suit in the District Court where no federal question is involved, is one in which the United States has a proprietary interest and such interest must be reflected by the ownership by the United States of more than one-half of its capital stock. In short, "proprietary interest" means ownership by the government of the United States of more than one-half of the capital stock of the said corporation.

To hold or reason otherwise would mean that the United States by owning one share of stock in any corporation could make such corporation an agency of the United States; certainly no such intention can be, or should be, imputed to Congress.

IX.

The Allegation That Plaintiff Is an "Instrumentality of the United States" Does Not Empower, Authorize or Grant Jurisdiction to Bring the Within Action in the United States District Court.

The prior discussions relating to *28 U.S.C. 1345, 28 U.S.C. 1349* and *12 U.S.C. 1725* fully indicate that the fact that a corporation is an "instrumentality of the United States" is insufficient in and of itself to authorize Federal District Court jurisdiction.

12 U.S.C. 1725, as amended, expressly provides that plaintiff shall be an "instrumentality of the United States," but its right to sue is limited and governed by sub-section (4) of *12 U.S.C. 1725,* and other statutes as heretofore discussed.

It was conceded by plaintiff's counsel at the oral arguments in this matter that the issues involved in this litigation do not involve any federal question or law. Such concession, though inconsistent with the allegations of jurisdiction in the Complaint, is apparent from "Plaintiff's Statement of Reasons and Memorandum of Points and Authorities in Opposition to Motion of Defendants Walker to Dismiss this Action for Lack of Jurisdiction," filed in the District Court. [Clk. Tr. p. 1228.]

X.

Conclusion.

In considering the issue here involved, it is wise to look at some of the attributes of plaintiff-appellee.

(1) It is not able to bind the government or the treasury of the United States.

(2) Its assets are not the assets of the United States.

(3) Its debts and obligations are its own and not that of the United States.

(4) None of its shares of stock are owned by the United States.

(5) Its assets are liable for its own debts.

(6) Its assets (including its shares of stock) are subject to being attached by its creditors.

(7) Its acts are not the acts of the government.

(8) Its conduct, as managed by the three member Federal Home Loan Bank Board, acting as trustees, is not subject to being overruled by the President of the United States.

(9) If it borrows from the government (which it never has) it becomes a bona fide debtor to the government.

(10) It is wholly self-supporting.

(11) It operates at a profit.

(12) It issues its own financial and operating statements.

No Court decision can be found which is contrary to the position taken by appellants in challenging the jurisdiction of the District Court in this matter.

Statutes relating to the jurisdiction of the United States are to be strictly construed. (*Elgin v. Marshall; Grace v. American Central Insurance Co.; Healy v. Ratta;* cited *supra*). Jurisdiction of the United States District Court is not a special privilege conferred upon government instrumentalities and jurisdictional statutes are not to be considered in any protective sense. Due regard for the independence of state governments requires

that federal courts scrupulously confine their own jurisdiction to the precise limits defined by statute.

Appellee concedes that no federal question is here involved. The action is one to foreclose deeds of trust securing notes and all property so encumbered is located within the County of Orange, State of California.

The Constitution of the State of California requires that the only forum with jurisdiction is the Superior Court of the State of California in and for the County of Orange. The mandate of the State constitution has not been overruled, modified or altered by any Act of Congress.

The integrity of local government, one of the basic protections and bastions of individual liberty, cherished by the framers of our Federal Constitution and revered by all free men, regardless of political affiliation, should not be trampled by overzealous conduct on the part of any instrumentality of the United States and a sound and just State Constitutional provision should not be rendered lifeless by self-serving erroneous implication.

Wherefore, it is respectfully prayed of the Honorable Court that the order made by the District Court on January 14, 1966, denying the motion of defendants and appellants to dismiss for lack of jurisdiction be reversed and that this cause be dismissed as to appellants Kenneth G. Walker and Nancy M. Walker.

Respectfully submitted,

Baum & Aran,

By Leonard P. Baum,

Attorneys for Defendants and Appellants Kenneth G. Walker and Nancy M. Walker.

Certificate.

I certify that in connection with the preparation of this brief I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that, in my opinion, the foregoing brief is in full compliance with those rules.

LEONARD P. BAUM

No. 20724

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ACRON INVESTMENTS, INC., VELTURON CORPORATION, METRIM CORPORATION, FULLERTON COUNTRY CLUB, C. S. JONES, EDITH B. JONES, LOS COYOTES COUNTRY CLUB, BELLEHURST COUNTRY CLUB, KENNETH G. WALKER and NANCY M. WALKER,

Appellants,

vs.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION,

Appellee.

Appeal From the District Court for the Southern District of California, Central Division.

Appellants' Brief of Appellants Acron Investments, Inc., Velturon Corporation, Metrim Corporation, Fullerton Country Club, C. S. Jones, Edith B. Jones, Los Coyotes Country Club, and Bellehurst Country Club.

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I.

JURISDICTION.

This is an appeal from an order of the District Court dening motions to dismiss the complaint in this case on the ground that the District Court does not have jurisdiction. In making the order denying the motions

to dismiss, the District Court certified in writing and in the order that the order involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of this litigation. Within ten days appellants applied to this Court for leave to appeal from the District Court's order, and leave to appeal was granted.

This Court has jurisdiction to entertain this appeal from the District Court's order under 28 USCA 1292-(b), which provides as follows:

> "(b) When a district judge, in making in a civil action an order not otherwise appealable under this section, shall be of the opinion that such order involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation, he shall so state in writing in such order. The Court of Appeals may thereupon, in its discretion, permit an appeal to be taken from such order, if application is made to it within ten days after the entry of the order: *Provided, however,* That application for an appeal hereunder shall not stay proceedings in the District Court unless the district judge or the Court of Appeals or a judge thereof shall so order."

This Court has stayed the trial and pre-trial of the action pending disposition of this appeal.

II.
STATEMENT OF THE CASE.

This is an action to judicially foreclose deeds of trust on real property located in Orange County, California. The deeds of trust in question were given to the Long Beach Federal Savings & Loan Association (hereinafter "Long Beach Federal") to secure loans made by Long Beach Federal to some of the appellants herein. Prior to commencement of this action, the deeds of trust and the notes which they secure were assigned by Long Beach Federal to the appellee, Federal Savings & Loan Insurance Corporation (hereinafter "the Corporation").

The complaint contains 467 causes of action. The first 461 causes of action are substantially similar. Each of them alleges that one of the appellants is indebted on a promissory note given to Long Beach Federal and assigned to the Corporation. It is alleged that each note is secured by an "individual" deed of trust on a particular parcel of real property, and also by another "blanket" deed of trust covering all of the property in the subdivision. It is further alleged that each of the appellants is the *alter ego* of the maker of the note and that a deficiency judgment should be entered against all of the appellants. [See, *e.g.*, Clk. Tr., pp. 5-22, First Cause of Action.] The other defendants named in the complaint are apparently persons having some junior interest in the property which is sought to be foreclosed.

The remaining causes of action are ancillary to the foreclosure allegations. Cause of action 462 alleges that each of the trust deeds provides that in the event of default the beneficiary may enter the property and collect rents. [Clk. Tr., pp. 926-928.] Cause of action 463 al-

leges that each of the trust deeds contains an assignment of rents. [Clk. Tr., p. 928.] Cause of action 464 alleges that all of the notes and individual trust deeds are held in escrow together with certain loan proceeds, and a declaration of the rights of the parties to the ecrow is sought. [Clk. Tr., pp. 929-931.] Cause of action 465 alleges that the Corporation is entitled to the notes, trust deeds and funds in escrow pursuant to certain "general pledge agreements" given to Long Beach Federal and assigned to the Corporation. [Clk. Tr., pp. 931-933.] Cause of action 466 alleges that appellant Fullerton Country Club promised to give a chattel mortgage on the assets of the Country Club. [Clk. Tr., pp. 933-934.] Cause of action 467 seeks an accounting, pursuant to the assignments of rents and general pledge agreements, of rents and other monies collected by the appellants from leases and conditional sales contracts. [Clk. Tr., pp. 934-935.]

The complaint alleges the following bases of federal jurisdiction:

12 USCA 1725, which authorizes the Federal Savings & Loan Insurance Corporation to "sue and be sued, complain and defend, in any court of competent jurisdiction." [Clk. Tr., p. 5, lines 9-13.]

28 USCA 1345, which provides that

> "the district courts shall have original jurisdiction of all civil actions, suits or proceedings commenced by the United States, or by any agency or officer thereof expressly authorized to sue by Act of Congress." [Clk. Tr., p. 5, lines 14-22.]

28 USCA 1444, which permits the United States to remove an action to the federal court when it is sought to foreclose a federal tax lien. [Clk. Tr., p. 5, lines 23-29.]

Each of the appellants herein moved to dismiss the complaint on the ground that the District Court does not have jurisdiction. [Clk. Tr., pp. 1184-1185, 1212-1213.] All possible questions of jurisdiction were fully briefed in the District Court. [Clk. Tr., pp. 1186-1210, 1214-1227, 1228-1235, 1237-1239.] The Corporation conceded that there is no federal question involved [Clk. Tr., p. 1233, lines 20-21], and stated that its sole claim of jurisdiction is that it is an "agency" of the United States within the meaning of 28 USCA 1345. [Clk. Tr., p. 1229, lines 7-17.] Whether the Corporation is an "agency" within the meaning of 28 USCA 1345 depends upon whether it is an agency as defined in 28 USCA 451. Section 451 provides that "agency" includes *any corporation in which the United States has a proprietary interest.* It was established by answers to written interrogatories and responses to requests for admissions that none of the capital stock of the Corporation is owned by the United States government. [Clk. Tr., pp. 1240-1247.]

The District Court nevertheless held, in effect, that the Corporation is an "agency" of the United States within the meaning of 28 USCA 1345 by denying the motions to dismiss. [Clk. Tr., pp. 1248-1249.] The order was certified for interlocutory appeal. [Clk. Tr., p. 1249, lines 8-12.] Leave to appeal was granted, and this appeal followed. [Clk. Tr., pp. 1251-1252, 1261-1262.]

III.
SPECIFICATION OF ERROR.

The District Court erred by its order made on January 14, 1966, denying the motion of appellants herein to dismiss this action, and in holding and deciding that the District Court has jurisdiction of this action.

IV.
SUMMARY OF ARGUMENT.

The Federal Savings & Loan Insurance Corporation is not an agency of the United States within the meaning of 28 USCA 1345. The Corporation is an agency for some purposes. But the term "agency", as used in 28 USCA 1345 for jurisdictional purposes, is limited to the definition of the word as set forth in 28 USCA 451. Section 451 provides that corporations are agencies only if the United States has a proprietary interest. The United States does not have a proprietary interest in the Federal Savings & Loan Insurance Corporation because it does not own any of its capital stock. The Congressional intent not to include all government-controlled, as distinguished from government-owned, corporations in 28 USCA 1345 is evidenced by other statutes expressly providing that there is jurisdiction of suits brought by certain corporations. There is no such express grant of jurisdiction for the Federal Savings & Loan Insurance Corporation. A bill has recently been introduced which will expressly provide for federal jurisdiction of suits brought by the Corporation. But as the law now stands there is no jurisdiction.

There is no other basis for federal jurisdiction over this lawsuit. There is no federal question involved. This is an action to foreclose trust deeds on real property.

The questions involved relate solely to state law, and such actions are customarily brought in the courts of the states where the real property is located. The language of 12 USCA 1725 authorizing the Corporation to sue in "any court of competent jurisdiction" has uniformly been held not to be a grant of federal jurisdiction. These words mean only what they say. The Corporation is authorized to sue, but the court in which it sues must otherwise be a court of competent jurisdiction. 28 USCA 1444, which permits the United States to remove an action to the federal court when it is sought to foreclose a federal tax lien, has also been held not to be a grant of jurisdiction. The sole function of this statute is to permit the United States to remove a case.

V.

ARGUMENT.

A. The Federal Savings & Loan Insurance Corporation Is Not an Agency of the United States Within the Meaning of 28 USCA 1345.

The controlling question in this case is whether the Federal Savings & Loan Insurance Corporation is an "agency of the United States" within the meaning of 28 USCA 1345.[1] Section 1345 provides as follows:

> "Except as otherwise provided by Act of Congress, the District Courts shall have original jurisdiction of all civil actions, suits or proceedings commenced by the United States, or by any agency or officer thereof expressly authorized to sue by Act of Congress."

---

[1]The Corporation has conceded in the District Court that the only basis of jurisdiction on which it relies is 28 USCA 1345, on the theory that it is an agency of the United States. Nevertheless, for the sake of completeness, we will hereafter show that there is also no other possible basis of jurisdiction.

The Corporation claims that it is an agency for jurisdictional purposes because certain other statutes declare that it is an "agency" or "instrumentality" of the United States or that it is a "wholly-owned government corporation". 12 USCA 1437(b) provides that the Home Loan Bank Board "shall be an independent agency (including the Federal Savings & Loan Insurance Corporation) in the executive branch of the Government". 12 USCA 1725(c) provides that the Federal Savings & Loan Insurance Corporation "shall be an instrumentality of the United States". 31 USCA 846 provides that "as used in this chapter the term 'wholly-owned Government corporation' means" the Federal Savings & Loan Insurance Corporation and forty other corporations therein listed.

None of these statutes purports to define the term "agency of the United States" as that term is used in 28 USCA 1345. The definition of this term as used in Title 28 is found in 28 USCA 451. Section 451 provides as follows in respect of federal corporations:

> "As used in this Title . . . The term 'agency' includes any department, independent establishment, commission, administration, authority, board or bureau of the United States or *any corporation in which the United States has a proprietary interest*, unless the context shows that such term was intended to be used in a more limited sense." (Emphasis added.)

28 USCA 1345, upon which the Corporation relies, is of course, a part of Title 28. The word "agency", as used in 28 USCA 1345, is restricted to the definition of that term as set forth in 28 USCA 451. Section 451 does not say that all government corporations which

are "agencies of the United States" are agencies for the purposes of jurisdiction. To the contrary, the meaning of the statute is that government corporations are not agencies for purposes of jurisdiction unless the government has a proprietary interest in the corporation. All corporations which perform functions designated by the Congress are not included within the "agency" definition. The statute limits the term "agency" to "any corporation in which the United States has a proprietary interest".

What is the meaning of the words "proprietary interest"? The term "proprietary" is synonymous with the word "ownership". This is the meaning of the word according to the dictionary. For example, Webster's Third New International Dictionary says that a proprietary interest means: "Held as the property of a private owner". This is also the legal meaning. The interest of a proprietor is that of an owner. (*Colbert v. Ricker* (1943), 314 Mass. 138, 140 [49 N.E. 2d 459].) It has been specifically held that a "proprietary interest" in a corporation means ownership of stock in the corporation. (*Rotenberg v. Sheehan* (D.C. E.D. Mo. 1943), 48 F. Supp. 584, 586; *Select Theatres Corp. v. Johnson* (D.C. S.D. N.Y. 1956), 145 F. Supp. 583, 592.)

How much stock must the government own in a corporation to have a proprietary interest? Any minority shareholder has such an interest. The statute might, if read alone, be interpreted to include as an agency of government a corporation in which the United States has a small amount of stock, perhaps one share, or it might be interpreted to include only a corporation whose stock was wholly-owned by the government. Read alone, the statute is ambiguous. When read with 28 USCA

1349, the meaning of Section 451 is clear. Section 1349 provides:

> "The District Courts shall not have jurisdiction of any civil action by or against any corporation on the ground that it was incorporated by or under an Act of Congress, unless the United States is the owner of more than one-half of its capital stock."

The amount or degree of the government's proprietary interest is not necessary to determine in this case. It is an admitted fact that the United States does not own *any* of the stock of the Federal Savings & Loan Insurance Corporation. That being the fact, the government has *no* proprietary interest in the Corporation, and the Corporation is not an agency of the United States for jurisdictional purposes.

The express statutory grants of federal jurisdiction for other government corporations demonstrate further the Congressional intent that all government corporations are not to be considered "agencies" for jurisdictional purposes even though they are otherwise agencies of government. Congress has specifically conferred federal jurisdiction on suits brought by certain federal corporations, but has declined to do so in the case of others. Federal Savings & Loan Insurance Corporation is in the latter class. 12 USCA 1725, which is the statute setting forth the corporate powers of Federal Savings & Loan Insurance Corporation, provides that it may sue and be sued in "any court of competent jurisdiction." This type of language does not confer federal jurisdiction. (*Blackburn v. Portland Gold Mining Co.* (1900), 175 U.S. 571, 578-579 [20 S. Ct. 222, 44 L. Ed. 276]; *Shoshone Mining Co. v. Rutter* (1900), 177 U.S. 505, 506-507 [20 S. Ct. 726, 44 L. Ed. 864]; *De-*

Lamar's Nevada Gold Mining Co. v. Nesbitt (1900), 177 U.S. 523, 526-528 [20 S. Ct. 715, 44 L. Ed. 872].)

By contrast, the powers of the Commodity Credit Corporation are set forth in 15 USCA 714b. In 15 USCA 714 the Commodity Credit Corporation is declared to be an "agency and instrumentality of the United States". 15 USCA 714b(c) specifically provides for federal jurisdiction of suits by the Commodity Credit Corporation:

> "The District Courts of the United States including the District Courts of any Territory or possession, shall have exclusive original jurisdiction, without regard to the amount in controversy, of all suits brought by or against the Corporation . . ."

There are similar grants of federal jurisdiction for other government corporations. See, for example: 7 USCA 1503 and 1506(d), which provide that the Federal Crop Insurance Corporation is an "agency of the United States", and that "jurisdiction is conferred upon such District Court to determine such controversies without regard to the amount in controversy . . ." See also: 12 USCA 1819 which provides, with respect to the Federal Deposit Insurance Corporation, that "all suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States . . ."

A comparison between these statutes defining the powers of federal corporations to sue and be sued illustrates the point that Congress did not intend to confer federal jurisdiction on all suits brought by all government corporations. In some cases (including Federal

Savings & Loan Insurance Corporation) Congress has used general language which is well understood not to constitute a grant of federal jurisdiction. In others the statutes have been carefully drafted to say that the United States District Courts will have jurisdiction. All of this legislation would be meaningless if 28 USCA 1345 were construed to mean that all governmental corporations may sue in the federal courts in all case merely because they are government agencies. Congress avoided that result when it provided in 28 USCA 451 that the corporate agencies of the United States are not agencies for jurisdictional purposes unless the government actually has a proprietary interest.

It may well be that in the future the federal courts will have jurisdiction of all suits brought by the Federal Savings & Loan Insurance Corporation. On March 29, 1966, a bill was submitted to the Speaker of the House of Representatives by the Department of the Treasury, the Federal Reserve Board, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation. A copy of this bill is attached to this brief as an appendix. The bill proposes to amend Section 407 of the National Housing Act (12 USCA 1730) by adding subsection (k)(1) to read as follows:

> "(k) *Jurisdiction and enforcement* — (1) Notwithstanding any other provision of law, (A) the Corporation shall be deemed to be an agency of the United States within the meaning of section 451 of Title 28 of the United States Code; (B) any civil action, suit, or proceeding to which the Corporation shall be a party shall be deemed to arise under the laws of the United States, and the United States District Courts shall have original

jurisdiction thereof, without regard to the amount in controversy; and (C) the Corporation may, without bond or security, remove any such action, suit, or proceeding from a State court to the United States District Court for the district and division embracing the place where the same is pending by following any procedure for removal now or hereafter in effect: *Provided,* That any action, suit, or proceeding to which the Corporation is a party in its capacity as conservator, receiver, or other legal custodian of an insured State-chartered institution and which involves only the rights or obligations of investors, creditors, stockholders, and such institution under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any action, suit or proceeding in any court of any State or of the United States or any territory, or any other court." [Appendix, p. 22, line 18, to p. 23, line 4.]

"The Corporation" referred to in the proposed amendment to 12 USCA 1730 is the Federal Savings & Loan Insurance Corporation. (See: 12 USCA 1725-(a).) If this bill is introduced and passes, the federal courts will then have jurisdiction of suits brought by the Corporation. But at the present time there is no federal jurisdiction. Congress has not seen fit to conver federal jurisdiction on all suits brought by all government corporations. The government must either own over one-half of the stock in the corporation (28 USCA 451, 1345, 1349); or there must be a special statute granting jurisdiction. Neither requirement is

met in this case. The United States does not own any of the stock in the Federal Savings & Loan Insurance Corporation, and although an appropriate amendment to the law has been proposed, there is presently no special grant of jurisdiction.

B. There Is No Other Basis of Federal Jurisdiction.

1. Federal Incorporation Is Not a Basis of Federal Jurisdiction.

The Federal Savings & Loan Insurance Corporation is a corporation created by Act of Congress. (12 USCA 1725, subd. (a).) This fact is not a basis of jurisdiction. Federal jurisdiction depends upon whether the United States government owns the capital stock of the corporation. At one time it was the rule that the United States District Courts had jurisdiction of all suits brought by federally-created corporations. The theory was that, since the corporation was created by a statute of the United States, a federal question was involved for that reason. (*Osborn v. Bank of the United States* (1894), 9 Wheat. 738 [6 L. Ed. 204].) This rule has been changed by statute. 28 USCA 1349 now provides that the United States District Courts do not have jurisdiction unless the United States government owns more than one-half of the capital stock of the corporation.

> "28 USCA 1349. *Corporation organized under federal law as party.*
>
> "The District Courts shall not have jurisdiction of any civil action by or against any corporation on the ground that it was incorporated by or under an act of Congress, unless the United States is the owner of more than one-half of its capital stock."

This statute is so clear that there is no room for construction. Nevertheless, in one case it was contended that the statute does not mean what it says. But of course, the court held that the language is unambiguous and must be followed. *Marks v. R. F. C.* (4th Cir. 1942), 129 F. 2d 759 at 760:

> "We cannot follow the argument of Marks that Congress could not have meant that the jurisdiction of the District Court attaches when the United States owns 51 percent of the stock of the corporation and does not attach when the United States owns only 49 percent of the corporate stock. *Congress said just this in very clear language and we must give effect to this language. The wisdom of the result thereby reached is for Congress and not for the courts.*" (Emphasis added.)

2. There Is No Federal Question Involved.

Because of 28 USCA 1349, the United States District Courts do not have jurisdiction of suits brought by government corporations unless the government owns at least one-half of the stock. The only exception that has ever been recognized is when the nature of the case is such that it otherwise involves a federal question. *Federal Savings & Loan Insurance Corporation v. Third National Bank* (D.C. M.D. Tenn. 1945), 60 F. Supp. 110, was a suit brought by the Federal Savings & Loan Insurance Corporation. It was dismissed for lack of jurisdiction because the stock of the Federal Savings & Loan Insurance Corporation was then owned by the Home Owners Loan Corporation. The Home Owners Loan Corporation was a federal corporation whose stock was owned by the government, but the government did not own the stock of the Federal Savings & Loan In-

surance Corporation. On appeal, the judgment of dismissal was reversed because there was a federal question otherwise involved. The cause of action alleged in the complaint was based on certain acts of fraud and misrepresentation, which would constitute a violation of the National Housing Act, a federal statute. The court held that because of this federal question, there was jurisdiction. (*Federal Savings & Loan Ins. Corp. v. Third National Bank* (6th Cir. 1946), 153 F. 2d 678, at 680.)[2]

To involve a federal question, the result of the lawsuit must depend upon the validity, construction or effect of a federal law. In *Gully v. First National Bank* (1936), 229 U.S. 109, 112-114, 57 S. Ct. 96, 81 L. Ed. 70, Justice Cardozo summarized the "federal question" concept as follows:

> "How and when a case arises 'under the Constitution or laws of the United States' has been much considered in the books. Some tests are well established. To bring a case within the statute, a right or immunity created by the Constitution or laws of the United States must be an element, and an essential one, of the plaintiff's cause of action. . . . The right or immunity must be such that it will be supported if the Constitution or laws of the United States are given one construction or effect, and defeated if they receive another. . . . A genuine and present controversy, not merely a possible or

[2]The stock of Federal Savings & Loan Insurance Corporation is no longer owned by the Home Owners Loan Corporation. Prior to the commencement of this action, the Home Owners Loan Corporation was dissolved and the stock of Federal Savings & Loan Insurance Corporation was retired. [Clk. Tr., p. 1240, line 27, p. 1241, line 17.]

conjectural one, must exist with reference thereto . . ., and the controversy must be disclosed upon the face of the complaint, unaided by the answer or by the petition for removal. . . . Indeed, the complaint itself will not avail as a basis of jurisdiction in so far as it goes beyond a statement of the plaintiff's cause of action and anticipates or replies to a probable defense. . . .

"Looking backward we can see that the early cases were less exacting than the recent ones in respect of some of these conditions. If a federal right was pleaded, the question was not always asked whether it was likely to be disputed. This is seen particularly in suits by or against a corporation deriving its charter from an act of Congress. . . . Modern statutes have greatly diminished the importance of those decisions by narrowing their scope. . . . Federal incorporation is now abolished as a ground of federal jurisdiction except where the United States holds more than one-half of the stock. . . . Partly under the influence of statutes disclosing a new legislative policy, partly under the influence of more liberal decisions, the probable course of the trial, the real substance of the controversy, has taken on a new significance. 'A suit to enforce a right which takes its origin in the laws of the United States is not necessarily, or for that reason alone, one arising under those laws, for a suit does not so arise unless it really and substantially involves a dispute or controversy respecting the validity, construction or effect of such a law, upon the determination of which the result depends.' " (Citations omitted.)

In the case now under consideration there is no federal law involved in any way. This is a suit to foreclose trust deeds on real property in the State of California. The only law involved is that of the State of California. If there is a federal question in this case for purposes of jurisdiction, then any suit to foreclose a trust deed could be brought in a federal court. This, of course, is not the law. All of the notes and trust deeds in litigation in this case were acquired by assignment from the Long Beach Federal Savings and Loan Association. If the Long Beach Federal Savings and Loan Association had brought suit, no one would argue that the federal court would have jurisdiction. The only fact that has occurred which changes the situation in any way is that the notes and trust deeds have been assigned to the Federal Savings & Loan Insurance Corporation. But, as we have shown, this fact that the Federal Savings & Loan Insurance Corporation is the plaintiff is not a basis of federal jurisdiction unless the United States government owns over one-half of its capital stock.

3. None of the Statutes Alleged in the Complaint Confers Federal Jurisdiction.

12 USCA 1725. [Clk. Tr., p. 5, lines 9-13.]

12 USCA 1725 provides that the Federal Savings & Loan Insurance Corporation shall have the power:

> "To sue and be sued, complain and defend, in any court of competent jurisdiction . . ."

The words "court of competent jurisdiction", when used in a federal statute, have been held not to constitute a grant of jurisdiction in the federal courts. For example, 30 USCA 30, which deals with the filing of

claims on government land, provides that an adverse claimant must commence suit "in a court of competent jurisdiction". The Supreme Court has held that this does not confer jurisdiction on the federal courts. (*Blackburn v. Portland Gold Mining Co.* (1900), 175 U.S. 571, 578-579 [20 Sup. Ct. 222, 44 L. Ed. 276]; *Shoshone Mining Co. v. Rutter* (1900), 177 U.S. 505, 506-507 [20 Sup. Ct. 726, 44 L. Ed. 846]; *DeLamar's Nevada Gold Mining Co. v. Nesbitt* (1900), 177 U.S. 523, 526-528 [20 Sup. Ct. 715, 44 L. Ed. 872].) The limited meaning of the words "court of competent jurisdiction" is set forth in the *Blackburn* case (*supra*) as follows in 175 U.S. at pages 578-579:

> "The first observation to be made is that Congress did not intend to prescribe jurisdiction in any particular court, state or Federal. 'It shall be the duty of the adverse claimant, within thirty days after filing his claim, *to commence proceedings in a court of competent jurisdiction,* to determine the question of the right of possession, and prosecute the same with reasonable diligence to final judgment.'
>
> "The natural inference from this language is that the competency of the adjudicating court was not to be determined by the mere fact that the mining claims in controversy consisted of lands the title to which was in the United States. If that fact alone were to be decisive no other than a Federal court would have been mentioned. We think the intention of Congress, in this legislation, was to leave open to suitors all courts competent to determine the question of the right of possession. If the parties

to the controversy were citizens of different states, and if the matter in dispute exceeded the sum of value of $2,000, then the claimant might elect to commence proceedings in a Federal or in a state court, because either would be competent to determine the question of the right of possession. But if the usual conditions of Federal jurisdiction did not exist, that is, if there was no adverse citizenship, and if the matter in dispute did not exceed $2,000, then the party claimant could proceed in a state court." (Emphasis in original.)

The language of 12 USCA 1725 has been similarly construed. Prior to 1954, when §1725 was amended to read as at present, it provided that the Federal Savings & Loan Insurance Corporation could sue "in any court of law or equity, State or Federal". It was held that this was not a grant of federal jurisdiction because of the prohibition of 28 USCA 1349 (then 28 USCA 42) which provides that the District Courts do not have jurisdiction of suits by government corporations unless the government owns at least one-half of the capital stock. (*Federal Savings & Loan Ins. Corp. v. Third National Bank* (D.C.M.D. Tenn. 1945), 60 F. Supp. 110, 112-113.)

28 USCA 1444. [Clk. Tr., p. 5, lines 23-29.]

28 USCA 1444 provides:

"Any action brought under section 2410 of this Title against the United States in any state court may be removed by the United States to the District Court of the United States for the district and division in which the action is pending."

28 USCA 2410 provides:

> "Under the conditions prescribed in this section and section 1444 of this Title for the protection of the United States, the United States may be named a party in any civil action or suit in any district court, or in any state court having jurisdiction of the subject matter, to quiet title to or for the foreclosure of a mortgage or other lien upon real or personal property on which the United States has or claims a mortgage or other lien."

These statutes are a waiver of sovereign immunity only. They do not confer jurisdiction on the United States District Courts. *Wells v. Long* (9th Cir. 1947), 162 F. 2d 842, at 844:

> "The purpose of the statute immediately involved is merely to waive sovereign immunity from suit in certain types of cases, not to confer jurisdiction on courts to hear and determine such cases in the ordinary sense. It presupposes that the court in which such suit is pending or brought has jurisdiction thereof on grounds independent of the statute. As already noted, the act gives the United States alone the right of removal to the federal court. Unless the United States invokes the jurisdiction of that court, and it has not done so here, federal jurisdiction cannot be predicated merely on the fact that the United States is a party."

See also: *Remis v. United States* (1st Cir. 1960), 273 F. 2d 293, 294; *Cooper Agency, Inc. v. McLeod* (D.C.E.D. S.C. 1964), 235 F. Supp. 276, 284.

4. There Is No Diversity of Citizenship.

Although it is not alleged in the Complaint, mention should be made of the fact that jurisdiction cannot be based on diversity of citizenship. A long line of cases holds that a federal corporation which is authorized to do business in several states is not a citizen of the State in which its principal office is located or of any other state within which it engages in its business. (*Federal Intermediate Credit Bank v. Mitchell* (1927), 277 U.S. 213 [48 Sup. Ct. 449, 72 L. Ed. 854]; *Banker's Trust Co. v. Texas & P. R. Co.* (1916), 241 U.S. 295 [26 Sup. Ct. 569, 60 L. Ed. 1010].) The general rule is that the citizenship of a federal corporation created to operate in one or more states is national only. It has no state citizenship for jurisdictional purposes. (*First Carolinas Joint Stock Land Bank v. New York Title & Mortgage Co.* (D.C.E.D. S.C. 1932), 59 F. 2d 350, 69 A.L.R. 1340.)

Conclusion.

The District Court erred in denying the motions to dismiss. There is no federal jurisdiction of this case under any of the theories alleged in the Complaint or under any other theory. The Federal Savings & Loan Insurance Corporation is one of the many government corporations which is an agency of government, but which Congress has not yet seen fit to declare to be an agency for jurisdictional purposes. It appears that the law may be amended to expressly provide that the District Courts will have jurisdiction of suits brought by

the Federal Savings & Loan Insurance Corporation. But at present there is no jurisdiction.

The order of the District Court should be reversed with directions to dismiss this action on the ground that there is no jurisdiction.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those Rules.

JOSEPH D. MULLENDER, JR.,
Attorney.

APPENDIX.

A Bill.

To strengthen the regulatory and supervisory authority of Federal agencies over insured banks and insured savings and loan associations, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Financial Institutions Supervisory Act of 1966".

TITLE I — PROVISIONS RELATING TO THE FEDERAL HOME LOAN BANK BOARD AND THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Sec. 101. Subsection (d) of section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464(d)), is hereby amended to read as follows:

"(d)(1) The Board shall have power to enforce this section and rules and regulations made hereunder. In the enforcement of any provision of this section or rules and regulations made hereunder, or any other law or regulation, or in any other action, suit, or proceeding to which it is a party or in which it is interested, and in the administration of conservatorships and receiverships, the Board is authorized to act in its own name and through its own attorneys. Except as otherwise provided herein, the Board shall be subject to suit (other than suits on claims for money damages) by any Federal savings and loan association or director or officer thereof with respect to any matter under this section or any other applicable law, or rules or regulations thereunder, in the United States district court for the judicial district in which the home office of the as-

sociation is located, or in the United States District Court for the District of Columbia, and the Board may be served with process in the manner prescribed by the Federal Rules of Civil Procedure.

"(2)(A) If, in the opinion of the Board, an association is violating or has violated or is about to violate a law, rule, regulation, or charter or other condition imposed by or agreement entered into with the Board, or is engaging or has engaged or is about to engage in an unsafe or unsound practice, the Board may issue and serve upon the association a notice of charges in respect thereof. The notice shall contain a statement of the facts constituting the alleged violation or violations or the unsafe or unsound practice or practices, and shall fix a time and place at which a hearing will be held to determine whether an order to cease and desist therefrom should issue against the association. Such hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after service of such notice unless a later date is set by the Board at the request of the association. Unless the association shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the issuance of the cease-and-desist order. In the event of such consent, or if upon the record made at any such hearing the Board shall find that any violation or unsafe or unsound practice specified in the notice of charges has been established, the Board shall issue and serve upon the association an order to cease and desist from any such violation or practice. Such order may, by provisions which may be mandatory or otherwise, require the association and its directors, officers, employees, and agents to cease and desist from the same,

and, further, to take affirmative action to correct the conditions resulting from any such violation or practice.

"(B) A cease-and-desist order shall become effective at the expiration of thirty days after service of such order upon the association concerned (except in the case of a cease-and-desist order issued upon consent, which shall become effective at the time specified therein), and shall remain effective and enforceable, except to such extent as it is stayed, modified, terminated, or set aside by action of the Board or a reviewing court.

"(3)(A) Whenever the Board shall determine that the violation or threatened violation of law, rules, or regulations, or the unsafe or unsound practice or practices, specified in the notice of charges served upon the association pursuant to paragraph (2)(A) of this subsection, or the continuation thereof, could cause insolvency (as defined in paragraph (6)(A)(i) of this subsection) or substantial dissipation of assets or earnings of the association, or could otherwise seriously prejudice the interests of its savings account holders, the Board may issue a temporary order requiring the association to cease and desist from any such violation or practice. Such order shall become effective upon service upon the association and, unless set aside, limited, or suspended by a court in proceedings authorized by subparagraph (B) of this paragraph, shall remain effective and enforceable pending the completion of the administrative proceedings pursuant to such notice and until such time as the Board shall dismiss the charges specified in such notice or, if a cease-and-desist order is issued against the association, until the effective date of any such order.

"(B) Within ten days after the association concerned has been served with a temporary cease-and-desist order,

the association may apply to the United States district court for the judicial district in which the home office of the association is located, or the United States District Court for the District of Columbia, for an injunction setting aside, limiting, or suspending the enforcement, operation, or effectiveness of such order pending the completion of the administrative proceedings pursuant to the notice of charges served upon the association under paragraph (2)(A) of this subsection, and such court shall have jurisdiction to issue such injunction.

"(C) In the case of violation or threatened violation of, or failure to obey, a temporary cease-and-desist order, the Board may apply to the United States district court, or the United States court of any territory, within the jurisdiction of which the home office of the association is located, for an injunction to enforce such order, and, if the court shall determine that there has been such violation or threatened violation or failure to obey, it shall be the duty of the court to issue such injunction.

"(4)(A) Whenever, in the opinion of the Board, any director or officer of an association has committed any violation of law, rule, or regulation, or of a cease-and-desist order which has become final, or has engaged or participated in any unsafe or unsound practice in connection with the association, or has committed or engaged in any act, omission, or practice which constitutes a breach of his fiduciary duty as such director or officer, and the Board determines that the association has suffered or will probably suffer substantial financial loss or other damage or that the interests of its savings account holders could be seriously prejudiced by reason of

such violation or practice or breach of fiduciary duty, the Board may serve upon such director or officer a written notice of its intention to remove him from office.

"(B) Whenever, in the opinion of the Board, any director or officer of an association, by conduct or practice with respect to another savings and loan association or other business institution which resulted in substantial financial loss or other damage, has evidenced his general unfitness to continue as a director or officer, and, whenever, in the opinion of the Board, any other person participating in the conduct of the affairs of an association, by conduct or practice with respect to such association or other savings and loan association or other business institution which resulted in substantial financial loss or other damage, has evidenced his general unfitness to participate in the conduct of the affairs of such association, the Board may serve upon such director, officer, or other person a written notice of its intention to remove him from office and/or to prohibit his further participation in any manner in the conduct of the affairs of such association.

"(C) In respect to any director or officer or an association or any other person referred to in paragraphs (4)(A) or 4) (B), the Board may, if it deems it necessary for the protection of the association or the interests of its savings account holders, by written notice to such effect served upon such director, officer, or other person, suspend him from office and/or prohibit him from further participation in any manner in the conduct of the affairs of the association. Such suspension and/or prohibition shall become effective upon service of such notice and, unless stayed by a court in proceedings authorized by subparagraph (E) of this

paragraph, shall remain in effect until terminated or set aside by the Board. Copies of any such notice shall also be served upon the association of which he is a director or officer or in the conduct of whose affairs he has participated.

"(D) A notice of intention to remove a director, officer, or other person from office and/or to prohibit his participation in the conduct of the affairs of an association, shall contain a statement of the facts constituting grounds therefor, and shall fix a time and place at which a hearing will be held thereon. Such hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after the date of service of such notice, unless a later date is set by the Board at the request of (i) such director, officer, or other person, and for good cause shown, or (ii) the Attorney General of the United States. Unless such director, officer, or other person shall appear at the hearing in person or by a duly authorized representative, he shall be deemed to have consented to the issuance of an order of such removal and/or prohibition. In the event of such consent, or if upon the record made at any such hearing the Board shall find that any of the grounds specified in such notice has been established, the Board shall issue such orders of suspension or removal from office, and/or prohibition from participation in the conduct of the affairs of the association, as it may deem appropriate. Any such order shall become effective at the expiration of thirty days after service upon such association and the director, officer, or other person concerned (except in the case of an order issued upon consent, which shall become effective at the time specified therein). Such order shall remain effective and enforce-

able except to such extent as it is stayed, modified, terminated, or set aside by action of the Board or a reviewing court.

"(E) Within ten days after a director, officer, or other person has been suspended from office and/or prohibited from participation in the conduct of the affairs of an association under subparagraph (C) of this paragraph, such director, officer, or other person may apply to the United States district court for the judicial district in which the home office of the association is located, or the United States District Court for the District of Columbia, for a stay of such suspension and/or prohibition pending the completion of the administrative proceedings pursuant to the notice served upon such director, officer, or other person under subparagraph (A) or (B) of this paragraph, and such court shall have jurisdiction to stay such suspension and/or prohibition.

"(5)(A) Whenever any director or officer of an association, or other person participating in the conduct of the affairs of such association, is charged in any information or indictment, or complaint authorized by a United States Attorney, with the commission of or participation in a felony involving dishonesty or breach of trust, the Board may, by written notice served upon such director, officer, or other person, suspend him from office and/or prohibit him from further participation in any manner in the conduct of the affairs of the association. A copy of such notice shall also be served upon the association. Such suspension and/or prohibition shall remain in effect until such information, indictment, or complaint is finally disposed of. In the event that a judgment of conviction with respect to such offense is entered against such director, officer, or other

person, and at such time as such judgment is not subject to further appellate review, the Board shall issue and serve upon such director, officer, or other person an order removing him from office and/or prohibiting him from further participation in any manner in the conduct of the affairs of the association. A copy of such order shall be served upon such association, whereupon such director or officer shall cease to be a director or officer of such association. A finding of not guilty or other disposition of the charge shall not preclude the Board from thereafter instituting proceedings to remove such director, officer, or other person from office and/or to prohibit further participation in association affairs, pursuant to subparagraphs (A) or (B) of paragraph (4) of this subsection.

"(B) If at any time, because of the suspension of one or more directors pursuant to this subsection (d), there shall be on the board of directors of an association less than a quorum of directors not so suspended, all powers and functions vested in or exercisable by such board shall vest in and be exercisable by the director or directors on the board and not so suspended, until such time as there shall be a quorum of the board of directors. In the event all of the directors of an association are suspended pursuant to this subsection (d), the Board shall appoint persons to serve temporarily as directors in their place and stead pending the termination of such suspensions, or until such time as those who have been suspended cease to be directors of the association and their respective successors take office.

"(6)(A) The grounds for the appointment of a conservator or receiver for an association shall be one or more of the following: (i) insolvency in that the as-

sets of the association are less than its obligations to its creditors and others, including its members; (ii) substantial dissipation of assets or earnings due to any violation or violations of law, rules, or regulations, or to any unsafe or unsound practice or practices; (iii) an unsafe or unsound condition to transact business; (iv) wilful violation of a cease-and-desist order which has become final; (v) concealment of books, papers, records, or assets of the association or refusal to submit books, papers, records, or affairs of the association for inspection to any examiner or to any lawful agent of the Board. The Board shall have exclusive power and jurisdiction to appoint a conservator or receiver. If, in the opinion of the Board, a ground for the appointment of a conservator or receiver as herein provided exists, the Board is authorized to appoint ex parte and without notice a conservator or receiver for the association. In the event of such appointment, the association may, within thirty days thereafter, bring an action in the United States district court for the judicial district in which the home office of such association is located, or in the United States District Court for the District of Columbia, for an order requiring the Board to remove such conservator or receiver, and the court shall upon the merits dismiss such action or direct the Board to remove such conservator or receiver. Such proceedings shall be given precedence over other cases pending in such courts, and shall be in every way expedited. Upon the commencement of such an action, the court having jurisdiction of any other action or proceeding authorized under this subsection to which the association is a party shall stay such action or proceeding during the pendency of the action for removal of the conservator or receiver.

"(B) In addition to the foregoing provisions, the Board may, without any requirement of notice, hearing, or other action, appoint a conservator or receiver for an association in the event that (i) the association, by resolution of its board of directors or of its members, consents to such appointment, or (ii) the association is removed from membership in any Federal Home Loan Bank, or its status as an institution the accounts of which are insured by the Federal Savings and Loan Insurance Corporation is terminated.

"(C) Except as otherwise provided in this subsection, no court may take any action for or toward the removal of any conservator or receiver, or, except at the instance of the Board, restrain or affect the exercise of powers or functions of a conservator or receiver.

"(D) A conservator shall have all the powers of the members, the directors, and the officers of the association and shall be authorized to operate the association in its own name or to conserve its assets in the manner and to the extent authorized by the Board. The Board shall appoint only the Federal Savings and Loan Insurance Corporation as receiver for an association, and said Corporation shall have power to buy at its own sale as receiver, subject to approval by the Board. The Board may, without any requirement of notice, hearing, or other action, replace a conservator with another conservator or with a receiver, but any such replacement shall not affect any right which the association may have to obtain judicial review of the original appointment, except that any removal under this paragraph (6) shall be removal of the conservator or receiver in office at the time of such removal.

"(7)(A) Any hearing provided for in this subsection (d) shall be held in the Federal judicial district or in the territory in which the home office of the association is located unless the party afforded the hearing consents to another place, and shall be conducted in accordance with the provisions of the Administrative Procedure Act; but such hearing shall be private, unless otherwise ordered for good cause found. After such hearing, and within ninety days after the Board has notified the parties that the case has been submitted to it for final decision, the Board shall render its decision (which shall include findings of fact upon which its decision is predicated) and shall issue and cause to be served upon each party to the proceeding on order or orders consistent with the provisions of this subsection. Judicial review of any such order shall be exclusively as provided in this paragraph (7). Unless a petition for review is timely filed in a court of appeals of the United States, as hereinafter provided in subparagraph (B) of this paragraph, and thereafter until the record in the proceeding has been filed as so provided, the Board may at any time, upon such notice and in such manner as it shall deem proper, modify, terminate, or set aside any such order. Upon such filing of the record, the Board may modify, terminate, or set aside any such order with permission of the court.

"(B) Any party to the proceeding, or any person required by an order issued under this subsection to cease and desist from any of the violations or practices stated therein, may obtain a review of any order served pursuant to subparagraph (A) of this paragraph (other than an order issued with the consent of the association or the director or officer or other person concerned, or

an order issued under paragraph (5)(A) of this subsection), by filing in the court of appeals of the United States for the circuit in which the home office of the association is located, or in the United States Court of Appeals for the District of Columbia Circuit, within thirty days after the date of service of such order, a written petition praying that the order of the Board be modified, terminated, or set aside. A copy of such petition shall be forthwith transmitted by the clerk of the court to the Board, and thereupon the Board shall file in the court the record in the proceeding, as provided in section 2112 of title 28 of the United States Code. Upon the filing of such petition, such court shall have jurisdiction, which upon the filing of the record shall except as provided in the last sentence of said subparagraph (A) be exclusive, to affirm, modify, terminate, or set aside, in whole or in part, the order of the Board. Review of such proceedings shall be had as provided in the Administrative Procedure Act. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari as provided in section 1254 of title 28 of the United States Code.

"(C) The commencement of proceedings for judicial review under subparagraph (B) of this paragraph shall not, unless specifically ordered by the court, operate as a stay of any order issued by the Board.

"(8) The Board may in its discretion apply to the United States district court, or the United States court of any territory, within the jurisdiction of which the home office of the association is located, for the enforcement of any effective and outstanding order issued by the Board under this subsection (d), and such courts

shall have jurisdiction and power to order and require compliance therewith; but except as otherwise provided in this subsection no court shall have jurisdiction to affect by injunction or otherwise the issuance or enforcement of any notice or order under this subsection, or to review, modify, suspend, terminate, or set aside any such notice or order.

"(9) In the course of or in connection with any proceeding under this subsection, the Board or any member thereof or a designated representative of the Board, including any person designated to conduct any hearing under this subsection, shall have power to administer oaths and affirmations, to take or cause to be taken depositions, and to issue, revoke, quash, or modify subpenas and subpenas duces tecum; and the Board is empowered to make rules and regulations with respect to any such proceedings. The attendance of witnesses and the production of documents provided for in this paragraph may be required from any place in any State or in any territory at any designated place where such proceeding is being conducted. Any party to proceedings under this subsection may apply to the United States District Court for the District of Columbia, or the United States district court for the judicial district or the United States court in any territory in which such proceeding is being conducted or where the witness resides or carries on business, for enforcement of any subpena or subpena duces tecum issued pursuant to this paragraph, and such courts shall have jurisdiction and power to order and require compliance therewith. Witnesses subpenaed under this paragraph shall be paid the same fees and mileage that are paid witnesses in the district courts of the United States. All expenses of

the Board or of the Federal Savings and Loan Insurance Corporation in connection with this subsection shall be considered as nonadministrative expenses.

"(10) Any service required or authorized to be made by the Board under this subsection may be made by registered mail, or in such other manner reasonably calculated to give actual notice as the Board may by regulation or otherwise provide.

"(11) The Board shall have power to make rules and regulations for the reorganization, consolidation, liquidation, and dissolution of associations, for the merger of associations with other institutions the accounts of which are insured by the Federal Savings and Loan Insurance Corporation, for associations in conservatorship and receivership, and for the conduct of conservatorships and receiverships; and the Board may, by regulation or otherwise, provide for the exercise of functions by members, directors, or officers of an association during conservatorship and receivership.

"(12)(A) Any director or officer, or former director or officer, of an association, or any other person, against whom there is outstanding and effective any notice or order (which is an order which has become final) served upon such director, officer, or other person under paragraphs (4)(C), (4)(d), or (5)(A) of this subsection, and who (i) participates in any manner in the conduct of the affairs of such association, or directly or indirectly solicits or procures, or transfers or attempts to transfer, or votes or attempts to vote any proxies, consents, or authorizations in respect of any voting rights in such association, or (ii) without the prior written approval of the Board, votes for a director or serves or acts as a director, officer, or employee of

any institution the accounts of which are insured by the Federal Savings and Loan Insurance Corporation, shall upon conviction be fined not more than $5,000 or imprisoned for not more than one year, or both.

"(B) Except with the prior written consent of the Board, no person shall serve as a director, officer, or employee of an association who has been convicted, or who is hereafter convicted, of a criminal offense involving dishonesty or a breach of trust. For each wilful violation of this prohibition, the association involved shall be subject to a penalty of not more than $100 for each day this prohibition is violated, which the Board may recover by suit or otherwise for its own use.

"(C) Whenever a conservator or receiver appointed by the Board demands possession of the property, business, and assets of any association, or of any part thereof, the refusal by any director, officer, employee, or agent of such association to comply with the demand shall be punishable by a fine of not more than $5,000 or imprisonment for not more than one year, or both.

"(13)(A) As used in this subsection—

"(1) The terms 'cease-and-desist order which has become final' and 'order which has become final' mean a cease-and-desist order, or an order, issued by the Board with the consent of the association or the director or officer or other person concerned, or with respect to which no petition for review of the action of the Board has been filed and perfected in a court of appeals as specified in paragraph (7)(B) of this subsection, or with respect to which the action of the court in which said petition is so filed is not subject to further review by the Supreme Court of the United States in proceedings

provided for in said paragraph, or an order issued under paragraph (5)(A) of this subsection.

"(2) The term 'territory' includes the Commonwealth of Puerto Rico, and any possession of the United States or any place subject to the jurisdiction of the United States.

"(B) As used in paragraph (4) of this subsection, the term 'violation' includes without limitation any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or aiding or abetting a violation.

"(14) As used in this subsection, the terms 'Federal savings and loan association' and 'association' shall include any institution with respect to which the Federal Home Loan Bank Board now or hereafter has any statutory power of examination or supervision under any or joint resolution of Congress other than this Act, the Federal Home Loan Bank Act, and the National Housing Act. For the purposes of this paragraph (14), references in this subsection to directors, officers, employees, and agents or to former directors or officers, of associations shall be deemed to be references respectively to directors, officers, employees, and agents, or to former directors or officers, of such institutions, references therein to savings account holders and to members of associations shall be deemed to be references to holders of withdrawable accounts in such institutions, and references therein to boards of directors of associations shall be deemed to be references to boards of directors or other governing boards of such institutions. Said Board shall have power by regulation to define, for the purposes of this paragraph (14), terms used or referred to in the sentence next preceding and other terms in this subsection.

"(15) The provisions of this subsection, as amended by the amendment by which this sentence is added, shall not be applicable to or with respect to any proceeding for the appointment of a conservator or receiver pending immediately prior to the effective date of said amendment or any conservator or receiver appointed as a result of such proceeding, or to or with respect to any supervisory representative in charge, conservator, or receiver in office immediately prior to said date, or any successor of any of the same, or to the appointment of any such successor, and the provisions of this subsection as in effect immediately prior to said date shall be and remain applicable to all of the foregoing."

Sec. 102. Section 407 of the National Housing Act, as amended (12 U.S.C. 1730), is hereby amended to read as follows:

SEC. 407. TERMINATION OF INSURANCE AND ENFORCEMENT PROVISIONS.

"(a) *Voluntary termination of insurance*—Any insured institution other than a Federal savings and loan association may terminate its status as an insured institution by written notice to the Corporation specifying a date for such termination.

"(b) *Involuntary termination of insurance; notice and hearing*—(1) Whenever, in the opinion of the Corporation, any insured institution has violated its duty as such or is engaging or has engaged in an unsafe or unsound practice in conducting the business of such institution, or is in an unsafe or unsound condition to continue operations as an insured institution, or is violating or has violated an applicable law, rule, regulation, or order, or any condition imposed by the Corporation

or any agreement entered into with the Corporation, including any agreement entered into under section 403 of this title, the Corporation shall serve upon the institution a statement with respect to such violations or practices or condition for the purpose of securing the correction thereof, and shall send a copy of such statement to the appropriate State supervisory authority.

"(2) Unless such correction shall be made within one hundred and twenty days after service of such statement, or such shorter period of not less than twenty days after such service as (A) the Corporation shall require in any case where the Corporation determines that its insurance risk with respect to such institution could be unduly jeopardized by further delay in the correction of such violations or practices or condition, or (B) the appropriate State supervisory authority shall require, or unless within such time the Corporation shall have received acceptable assurances that such correction will be made within a time and in a manner satisfactory to the Corporation, or in the event such assurances are submitted to and accepted by the Corporation but are not carried out in accordance with their terms, the Corporation may, if it shall determine to proceed further, issue and serve upon the institution written notice of intention to terminate the status of the institution as an insured institution.

"(3) Such notice shall contain a statement of the facts constituting the alleged violation or violations or the unsafe or unsound practice or practices or condition, and shall fix a time and place for a hearing thereon. Such hearing shall be fixed for a date not earlier than thirty days after service of such notice. Unless the institution shall appear at the hearing by a duly au-

thorized representative, it shall be deemed to have consented to the termination of its status as an insured institution. In the event of such consent, or if upon the record made at any such hearing the Corporation shall find that any violation or unsafe or unsound practice or condition specified in such notice has been established and has not been corrected within the time above prescribed in which to make correction, the Corporation may issue and serve upon the institution an order terminating the status of the institution as an insured institution; but any such order shall not become effective until it is an order which has become final (except in the case of an order of termination issued upon consent, which shall become effective at the time specified therein).

"(c) *Date of termination of insured status*—The effective date of the termination of an institution's status as an insured institution under the foregoing provisions of this section shall be the date specified for such termination in the notice by the institution to the Corporation as provided in subsection (a) of this section, or the date upon which an order of termnination issued under subsection (b)(3) of this section becomes effective. The Corporation may from time to time postpone the effective date of the termination of an institution's status as an insured institution at any time before such termination has become effective, but in the case of termination by notice given by the institution such effective date shall be postponed only with the written consent of the institution.

"(d) *Continuation of insurance; examinations; notice to members; and payment of premiums*—In the event of the termination of an institution's status as an insured institution, insurance of its accounts to the

extent that they were insured on the effective date of such termination as hereinabove provided in subsection (c), less any amounts thereafter withdrawn, repurchased, or redeemed, shall continue for a period of two years, but no investments or deposits made after such date shall be insured. The Corporation shall have the right to examine such institution from time to time during the two-year period aforesaid. Such insured institution shall be obligated to pay, within thirty days after the effective date of such termination, as a final insurance premiun, a sum equivalent to twice the last annual insurance premium payable by it. In the event of the termination of insurance of accounts as herein provided the institution which was the insured institution shall give prompt and reasonable notice to all of its insured members that it has ceased to be an insured institution and it may include in such notice that fact that insured accounts, to the extent not withdrawn, repurchased, or redeemed, remain insured for two years from the date of such termination, but it shall not further represent itself in any manner as an insured institution. In the event of failure to give the notice to insured members as herein provided the Corporation is authorized to give reasonable notice.

"(e) *Cease-and-desist proceedings*—(1) If, in the opinion of the Corporation, any insured institution or any instituition any of the accounts of which are insured is engaging or has engaged or is about to engage in an unsafe or unsound practice in conducting the business of such institution, or is violating or has violated or is about to violate an applicable law, rule, or regulation, or any condition imposed by the Corporation or any agreement entered into with the Corporation, in-

cluding any agreement entered into under section 403 of this title, the Corporation may issue and serve upon the institution a notice of charges in respect thereof. The notice shall contain a statement of the facts constituting the alleged violation or violations or the unsafe or unsound practice or practices, and shall fix a time and place at which a hearing will be held to determine whether an order to cease and desist therefrom should issue against the institution. Such hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after service of such notice unless a later date is set by the Corporation at the request of ths institution. Unless the institution shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the issuance of the cease-and-desist order. In the event of such consent, or if upon the record made at any such hearing the Corporation shall find that any violation or unsafe or unsound practice specified in the notice of charges has been established, the Corporation shall issue and serve upon the institution an order to cease and desist from any such violation or practice. Such order may, by provisions which may be mandatory or otherwise, require the institution and its directors, officers, employees, and agents to cease and desist from the same, and, further, to take affirmative action to correct the conditions resulting from any such violation or practice.

"(2) A cease-and-desist order shall become effective at the expiration of thirty days after service of such order upon the institution concerned (except in the case of a cease-and-desist order issued upon consent, which shall become effective at the time specified therein), and shall remain effective and enforceable except to such

extent as it is stayed, modified, terminated, or set aside by action of the Corporation or a reviewing court.

"(f) *Temporary cease-and-desist orders*—(1) Whenever the Corporation shall determine that the violation or threatened violation of law, rules, or regulations, or the unsafe or unsound practice or practices, specified in the notice of charges served upon the institution pursuant to subsection (e)(1) of this section, or the continuation thereof, could cause insolvency or substantial dissipation of assets or earnings of the institution, or could otherwise seriously prejudice the interests of its insured members or of the Corporation, the Corporation may issue a temporary order requring the institution to cease and desist from any such violation or practice. Such order shall become effecitve upon service upon the institution and, unless set aside, limited, or suspended by a court in proceedings authorized by paragraph (2) of this subsection, shall remain effective and enforceable pending the completion of the administrative proceedings pursuant to such notice and until such time as the Corporation shall dismiss the charges specified in such notice or, if a cease-and-desist order is issued againt the institution, until the effective date of any such order.

"(2) Within ten days after the institution concerned has been served with a temporary cease-and-desist order, the institution may apply to the United States district court for the judicial district in which the principal office of the institution is located, or the United States District Court for the District of Columbia, for an injunction setting aside, limiting, or suspending the enforcement, operation, or effectiveness of such order pending the completion of the administrative proceed-

ings pursuant to the notice of charges served upon the institution under subsection (e)(1) of this section, and such court shall have jurisdiction to issue such injunction.

"(3) In the case of violation or threatened violation of, or failure to obey, a temporary cease-and-desist order, the Corporation may apply to the United States district court, or the United States court of any territory, within the jurisdiction of which the principal office of the institution is located, for an injunction to enforce such order, and, if the court shall determine that there has been such violation or threatened violation or failure to obey, it shall be the duty of the court to issue such injunction.

"(g) *Suspension or removal of director or officer*—(1) Whenever, in the opinion of the Corporation, any director or officer of an insured institution has committed any violation of law, rule, or regulation, or of a cease-and-desist order which has become final or has engaged or participated in any unsafe or unsound practice in connection with the institution, or has committed or engaged in any act, omission, or practice which constitutes a breach of his fiduciary duty as such director or officer, and the Corporation determines that the institution has suffered or will probably suffer substantial financial loss or other damage or that the interests of its insured members could be seriously prejudiced by reason of such violation or practice or breach of fiduciary duty, the Corporation may serve upon such director or officer a written notice of its intention to remove him from office.

"(2) Whenever, in the opinion of the Corporation, any director or officer of an insured institution, by con-

prohibited from participation in the conduct of the affairs of an insured institution under paragraph (3) of this subsection, such director, officer, or other person may apply to the United States district court for the judicial district in which the principal office of the insitution is located, or the United States District Court for the District of Columbia, for a stay of such suspension and/or prohibition pending the completion of the administrative proceedings pursuant to the notice served upon such director, officer, or other person under paragraphs (1) or (2) of this subsection, and such court shall have jurisdiction to stay such suspension and/or prohibition.

"(h) *Suspension of director or officer under indictment*—Whenever any director or officer of an insured institution, or other person participating in the conduct of the affairs of such institution, is charged in any information or indictment, or complaint authorized by a United States Attorney, with the commission of or participation in a felony involving dishonesty or breach of trust, the Corporation may, by written notice served upon such director, officer, or other person, suspend him from office and/or prohibit him from further participation in any manner in the conduct of the affairs of the institution. A copy of such notice shall also be served upon the institution. Such suspension and/or prohibition shall remain in effect until such information, indictment, or complaint is finally disposed of. In the event that a judgment of conviction with respect to such offense is entered against such director, officer, or other person, and at such time as such judgment is not subject to further appellate review, the Corporation shall issue and serve upon such director, officer, or other per-

son an order removing him from office and/or prohibiting him from further participation in any manner in the conduct of the affairs of the institution. A copy of such order shall also be served upon such institution, whereupon such director or officer shall cease to be a director or officer of such institution. A finding of not guilty or other disposition of the charge shall not preclude the Corporation from thereafter instituting proceedings to remove such director, officer, or other person from office and/or to prohibit further participation in institution affairs, pursuant to paragraphs (1) or (2) of subsection (g) of this section.

"(i)) *Termination of Federal Home Loan Bank membership*—Termination under this section or otherwise of status of an institution as an insured institution shall automatically constitute a removal under subsection (i) of section 6 of the Federal Home Loan Bank Act of the institution from Federal Home Loan Bank membership, if at the time of such termination such institution is a member of a Federal Home Loan Bank; and removal of an institution from Federal Home Loan Bank membership under subsection (i) of section 6 of the Federal Home Loan Bank Act or otherwise shall automatically constitute an order of termination under this section of the status of such institution as an insured institution, if such institution is at the time of such removal an insured institution.

"(j) *Hearings and judicial review*—(1) Any hearing provided for in this section shall be held in the Federal judicial district or in the territory in which the principal office of the institution is located unless the party afforded the hearing consents to another place, and shall be conducted in accordance with the provisions of the

Administrative Procedure Act; but such hearing shall be private, unless otherwise ordered for good cause found. After such hearing, and within ninety days after the Corporation has notified the parties that the case has been submitted to it for final decision, the Corporation shall render its decision (which shall include findings of fact upon which its decision is predicated) and shall issue and cause to be served upon each party to the proceeding an order or orders consistent with the provisions of this section. Judicial review of any such order shall be exclusively as provided in this subsection. Unless a petition for review is timely filed in a court of appeals of the United States, as hereinafter provided in paragraph (2) of this subsection, and thereafter until the record in the proceeding has been filed as so provided, the Corporation may at any time, upon such notice and in such manner as it shall deem proper, modify, terminate, or set aside any such order. Upon such filing of the record, the Corporation may modify, terminate, or set aside any such order with permission of the court.

"(2) Any party to the proceeding, or any person required by an order issued under this section to cease and desist from any of the violations or practices stated therein, may obtain a review of any order served pursuant to paragraph (1) of this subsection (other than an order issued with the consent of the institution or the director or officer or other person concerned, or an order issued under subsection (h) of this section), by filing in the court of appeals of the United States for the circuit in which the principal office of the institution is located, or in the United States Court of Appeals for the District of Columbia Circuit, within thirty days

after the date of service of such order, a written petition praying that the order of the Corporation to modified, terminated, or set aside. A copy of such petition shall be forthwith transmitted by the clerk of the court to the Corporation, and thereupon the Corporation shall file in the court the record in the proceeding, as provided in section 2112 of title 28 of the United States Code. Upon the filing of such petition, such court shall have jurisdiction, which upon the filing of the record shall except as provided in the last sentence of said paragraph (1) be exclusive, to affirm, modify, terminate, or set aside, in whole or in part, the order of the Corporation. Review of such proceedings shall be had as provided in the Administrative Procedure Act. The judement and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari as provided in section 2154 of title 28 of the United States Code.

"(3) The commencement of proceedings for judicial review under paragraph (2) of this subsection shall not, unless specifically ordered by the court, operate as a stay order issued by the Corporation.

"(k) *Jurisdiction and enforcement*—(1) Notwithstanding any other provision of law, (A) the Corporation shall be deemed to be an agency of the United States within the meaning of section 451 of title 28 of the United States Code; (B) any civil action, suit, or proceeding to which the Corporation shall be a party shall be deemed to arise under the laws of the United States, and the United States districts courts shall have original jurisdiction thereof, without regard to the amount in controversy; and (C) the Corporation may, without bond or security, remove any such action, suit,

or proceeding from a State court to the United States district court for the district and division embracing the place where the same is pending by following any procedure for removal now or hereafter in effect; *Provided,* That any action, suit, or proceeding to which the Corporation is a party in its capacity as conservator, receiver, or other legal custodian of an insured State-chartered institution and which involves only rights or obligations of investors, creditors stockholders, and such institution under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any action, suit, or proceeding in any court of any State or of the United States or any territory, or any other court.

"(2) The Corporation may, in its discretion, apply to the United States district court, or the United States court of any territory, within the jurisdiction of which the principal office of the institution is located, for the enforcement of any effective and outstanding order issued by the Corporation under this section, and such courts shall have jurisdiction and power to order and require compliance therewith; but except as otherwise provided in this section no court shall have jurisdiction to affect by injunction or otherwise the issuance or enforcement of any notice or order under this section, or to review, modify, suspend, terminate, or set aside any such notice or order.

"(1) *Reporting requirements* — (1) Whenever a change occurs in the outstanding voting stock of any insured institution which will result in control or a change in the control of such institution, the president or other chief executive officer of such institution shall

promptly report such facts to the Corporation upon obtaining knowledge of such change. As used in this subsection, the term 'control' means the power to directly or indirectly direct or cause the direction of the management or policies of the insured institution. If there is any doubt as to whether a change in ownership or other change in the outstanding voting stock of any insured institution is sufficient to result in control or a change in the control thereof, such doubt shall be resolved in favor of reporting the facts to the Corporation.

"(2) Whenever an insured institution or an insured bank of the Federal Deposit Insurance Corporation makes a loan or loans secured (or to be secured) by 25 per centum or more of the voting stock of an insured institution, the president or other chief executive officer of the lending insured institution or insured bank shall promptly report such fact to the Corporation upon obtaining knowledge of such loan or loans, except that no report need be made in those cases where the borrower has been the owner of record of the stock for a period of one year or more, or the stock is of a newly organized insured institution prior to its opening.

"(3) The reports required by paragraphs (1) and (2) of this subsection shall contain the following information to the extent that it is known by the person making the report: (A) the number of shares involved, (B) the names of the sellers (or transferors), (C) the names of the purchasers (or transferees), (D) the names of the beneficial owners if the shares are of record in another name or other names, (E) the purchase price, (F) the total number of shares owned by the sellers (or transferors), the purchasers (or transferees) amd the beneficial owners both immediately before and

after the transaction, and in the case of a loan, (G) the name of the borrower, (H) the amount of the loan, and (I) the name of the institution issuing the stock securing the loan and the number of shares securing the loan. In addition to the foregoing, such reports shall contain such other information as may be available to inform the Corporation of the effect of the transaction upon control of the institution whose stock is involved. The reports required by this subsection shall be in addition to any reports that may be required pursuant to other provisions of law.

"(4) Whenever such a change as is described in paragraph (1) of this subsection occurs, the insured institution shall report promptly to the Corporation any change or changes, or replacement or replacements, of its chief executive officer or of any director occurring in the next twelve-month period, including in its report a statement of the past and current business and professional affiliations of the new chief executive or director.

"(5) Without limitation by or on the foregoing provisions of this subsection, the Corporation may require insured institutions and individuals or other persons who have had any connection with the management of any insured institution, as defined by the Corporation, to provide, in such manner and under such civil penalties (which shall be cumulative to any other remedies) as the Corporation may prescribe, such periodic or other reports and disclosures as the Corporation may determine to be necessary or appropriate for the protection of investors or the Corporation.

"(6) As used in this subsection, the term 'stock' means such stock or other equity securities or equity

interests in an insured institution, or rights, interests, or powers with respect thereto, regardless of whether such institution is a stock company, a mutual institution, or otherwise, as the Corporation may by regulation define for the purposes of this subsection.

"(m) *Ancillary provisions*—(1) In making examinations of insured institutions, examiners appointed by the Federal Home Loan Bank Board shall have power, on behalf of the Corporation, to make such examinations of the affairs of all affiliates of such institutions as shall be necessary to disclose fully the relations between such institutions and their affiliates and the effect of such relations upon such institutions. The cost of examinations of such affiliates shall be assessed against and paid by the institution. For purposes of this subsection, the term 'affiliate' shall have the same meaning as where used in section 2(b) of the Banking Act of 1933, as amended, except that the term 'member bank' shall be demed to refer to an insured institution.

"(2) In connection with examinations of insured institutions and affiliates thereof, the Corporation, or its designated representatives, shall have power to administer oaths and affirmations and to examine and to take and preserve testimony under oath as to any matter in respect of the affairs or ownership of any such institution or affiliate thereof, and to issue subpenas and subpenas duces tecum, and, for the enforcement thereof, to apply to the United States district court for the judicial district or the United States court in any territory in which the principal office of the institution or affiliate thereof is located, or in which the witness resides or carriers on business. Such courts shall have jurisdiction and power to order and require compliance with any subpena.

"(3) In the course of or in connection with any proceeding under this section, the Corporation or its designated representatives, including any person designated to conduct any hearing under this section, shall have power to administer oaths and affirmations, to take or cause to be taken depositions, and to issue, revoke, quash, or modify subpenas and subpenas duces tecum; and the Corporation is empowered to make rules and regulations with respect to any such proceedings. The attendance of witnesses and the production of documents provided for in this subsection may be required from any place in any State or in any territory at any designated place where such proceeding is being conducted. Any party to proceedings under this section may apply to the United States District Court for the District of Columbia, or the United States district court for the judicial district or the United States court in any territory in which such proceeding is being conducted or where the witness resides or carriers on business, for enforcement of any subpena or subpena duces tecum issued pursuant to this subsection, and such courts shall have jurisdiction and power to order and require compliance therewith. Witnesses subpenaed under this subsection shall be paid the same fees and mileage that are paid witnesses in the district courts of the United States. All expenses of the Board or of the Federal Savings and Loan Insurance Corporation in connection with this section shall be considered as nonadministrative expenses.

"(n) *Service*—Any service required or authorized to be made by the Corporation under this section may be made by registered mail, or in such other manner reasonably calculated to give actual notice as the Corporation may regulation or otherwise provide. Copies of

any notice or order served by the Corporation upon any institution or any director or officer thereof, pursuant to the provisions of this section, shall also be sent to the appropriate State supervisory authority.

"(o) *Consultation with State authorities*—In connection with any action under this section involving an insured State-chartered institution, the Corporation shall, to the extent compatible with the public interest, consult with the appropriate State supervisory authority and proceed with due regard for whatever power and intent such authority may have to effect the necessary corrective action.

"(p) *Penalties*—(1) Any director or officer, or former director or officer, of an insured institution or an institution any of the accounts of which are insured, or any person, against whom there is outstanding and effective any notice or order (which is an order which has become final) served upon such director, officer, or other person under subsections (g)(3), (g)-(4), or (h) of this section, and who (A) participates in any manner in the conduct of the affairs of such institution, or directly or indirectly solicits or procures, or transfers or attempts to transfer, or votes or attempts to vote any proxies, consents or authorizations in respect of any voting rights in such institution, or (B) without the prior written approval of the Corporation, votes for a director or serves or acts as a director, officer, or employee of any insured institution, shall upon conviction be fined not more than $5,000 or imprisoned for not more than one year, or both.

"(2) Except with the prior written consent of the Corporation, no person shall serve as a director, of-

ficer, or employee of an insured institution who has been convicted, or who is hereafter convicted, of a criminal offense involving dishonesty or a breach of trust. For each wilful violation of this prohibition, the institution involved shall be subject to a penalty of not more than $100 for each day this prohibition is violated, which the Corporation may recover by suit or otherwise for its own use.

"(q) *Definitions*—(1) As used in this section—

"(A) The terms 'cease-and-desist order which has become final' and 'order which has become final' mean a cease-and-desist order, or an order, issued by the Corporation with the consent of the institution or the director or officer or other person concerned, or with respect to which no petition for review of the action of the Corporation has been filed and perfected in a court of appeals as specified in subsection (j)(2) of this section, or with respect to which the action of the court in which said petition is so filed is not subject to further review by the Supreme Court of the United States in proceedings provided for in said subsection, or an order issued under subsection (h) of this section.

"(B) The term 'territory' includes the Commonwealth of Puerto Rico, and any possession of the United States or any place subject to the jurisdiction of the United States.

"(2) As used in subsection (f) of this section, the term 'insolvency' means that the assets of an institution are less than its obligations to its creditors and others, including its members.

"(3) As used in subsection (g) of this section, the term 'violation' includes without limitation any action

(alone or with another or others) for or toward causing, bringing about, participating in, counseling, or aiding or abetting a violation."

TITLE II—PROVISIONS RELATING TO THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AND THE COMPTROLLER OF THE CURRENCY

Sec. 201 Paragraph (6) of subsection (j) of section 7 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1817 (j)(6), is repealed and section (3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813), is amended by adding the following new subsection (q):

"(q) The term 'appropriate Federal banking agency' shall mean (a) the Comptroller of the Currency in the case of a national banking association or a District Bank, (b) the Board of Governors of the Federal reserve System in the case of a State member insured bank (except a District bank), and (c) the Federal Deposit Insurance Corporation in the case of a State nonmember insured bank (except a District bank)."

Sec. 202. Section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818), is amended by redesignating subsections (b), (c) and (d) thereof as (p), (q) and (r) and by adding after subsection (a) thereof the following new subsections (b) through (c), inclusive:

"(b)(1) If, in the opinion of the appropriate Federal banking agency, any insured bank or bank which has insured deposits is engaging or has engaged or is about to engage in an unsafe or unsound practice in con-

ducting the business of such bank, or is violating or has violated or is about to violate an applicable law, rule, or regulation, or any condition imposed by the agency or any agreement entered into with the agency, the agency may issue and serve upon the bank a notice of charges in respect thereof. The notice shall contain a statement of the facts constituting the alleged violation or violations or the unsafe or unsound practice or practices, and shall fix a time and place at which a hearing will be held to determine whether an order to cease and desist therefrom should issue against the bank. Such hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after service of such notice unless a later date is set by the agency at the request of the bank. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the issuance of the cease-and-desist order. In the event of such consent, or if upon the record made at any such hearing, the agency shall find that any violation or unsafe or unsound practice specified in the notice of charges has been established, the agency shall issue and serve upon the bank an order to cease and desist from any such violation or practice. Such order may, by provisions which may be mandatory or otherwise, require the bank and its directors, officers, employees, and agents to cease and desist from the same, and, further, to take affirmative action to correct the conditions resulting from any such violation or practice.

"(2) A cease-and-desist order shall become effective at the expiration of thirty days after the service of such order upon the bank concerned (except in the case of a cease-and-desist order issued upon consent, which shall

become effective at the time specified therein), and shall remain effective and enforceable as provided therein, except to such extent as it is stayed, modified, terminated, or set aside by action of the agency or a reviewing court.

"(c)(1) Whenever the appropriate Federal banking agency shall determine that the violation or threatened violation of law, rules, or regulations, or the unsafe or unsound practice or practices, specified in the notice of charges served upon the bank pursuant to paragraph (1) of subsection (b) of this section, or the continuation thereof, could cause insolvency or substantial dissipation of assets or earnings of the bank, or could otherwise seriously prejudice the interests of its depositors, the agency may issue a temporary order requiring the bank to cease and desist from any such violation or practice. Such order shall become effective upon service upon the bank and, unless set aside, limited, or suspended by a court in proceedings authorized by paragraph (2) of this subsection, shall remain effective and enforceable pending the completion of the administrative proceedings pursuant to such notice and until such time as the agency shall dismiss the charges specified in such notice, or if a cease-and-desist order is issued against the bank, until the effective date of any such order.

"(2) Within ten days after the bank concerned has been served with a temporary cease-and-desist order, the bank may apply to the United States district court for the judicial district in which the home office of the bank is located, or the United States District Court for the District of Columbia, for an injunction setting aside, limiting, or suspending the enforcement, opera-

tion, or effectiveness of such order pending the completion of the administrative proceedings pursuant to the notice of charges served upon the bank under paragraph (1) of subsection (b) of this section, and such court shall have jurisdiction to issue such injunction.

"(d) In the case of violation or threatened violation of, or failure to obey, a temporary cease-and-desist order issued pursuant to paragraph (1) of subsection (c) of this section, the appropriate Federal banking agency may apply to the United States District Court, or the United States court of any territory, within the jurisdiction of which the home office of the bank is located, for an injunction to enforce such order, and, if the court shall determine that there has been such violation or threatened violation or failure to obey, it shall be the duty of the court to issue such injunction.

"(e)(1) Whenever, in the opinion of the appropriate Federal banking agency, any director or officer of an insured bank has committed any violation of law, rule, or regulation, or of a cease-and-desist order which has become final, or has engaged or praticipated in any unsafe or unsound practice in connection with the bank, or has committed or engaged in any act, omission, or practice which constitutes a breach of his fiduciary duty as such director or officer, and the agency determines that the bank has suffered or will probably suffer substantial financial loss or other damage or that the interests of its depositors could be seriously prejudiced by reason of such violation or practice or breach of fiduciary duty, the agency may serve upon such director or officer a written notice of its intention to remove him from office.

"(2) Whenever, in the opinion of the appropriate Federal banking agency, any director or officer of an insured bank, by conduct or practice with respect to another insured bank or other business institution which resulted in substantial financial loss or other damage, has evidenced his general unfitness to continue as a director or officer and, whenever, in the opinion of the appropriate Federal banking agency, any other person participation in the conduct of the affairs of an insured bank, by conduct or practice with respect to such bank or other insured bank or other business institution which resulted in substantial financial loss or other damage, has evidenced his general unfitness to participate in the conduct of the affairs of such insured bank, the agency may serve upon such director, officer, or other person a written notice of its intention to remove him from office and/or to prohibit his further participation in any manner in the conduct of the affairs of the bank.

"(3) In respect to any director or officer of an insured bank or any other person referred to in subsections (e)(1) or (e)(2), the appropriate Federal agency may, if it deems it necessary for the protection of the bank or the interests of its depositors, by written notice to such effect served upon such director, officer, or other person, suspend him from office and/or prohibit him from further participation in any manner in the conduct of the affairs of the bank. Such suspension and/or prohibition shall become effective upon service of such notice and, unless stayed by a court in proceedings authorized by subsection (f) of this section, shall remain in effect until terminated or set aside by the agency. Copies of any such notice shall also be served

upon the bank of which he is a director or officer or in the conduct of whose affairs he has participated.

"(4) A notice of intention to remove a director, officer, or other person from office and/or to prohibit his participation in the conduct of the affairs of an insured bank, shall contain a statement of the facts constituting grounds therefor, and shall fix a time and place at which a hearing will be held thereon. Such hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after the date of service of such notice, unless a later date is set by the agency at the request of (A) such director or officer or other person, and for good cause shown, or (B) the Attorney General of the United States. Unless such director, officer, or other person shall appear at the hearing in person or by a duly authorized representative, he shall be deemed to have consented to the issuance of an order of such removal and/or prohibition. In the event of such consent, or if upon the record made at any such hearing the agency shall find that any of the grounds specified in such notice has been established, the agency shall issue such orders of suspension or removal from office, and/or prohibition from participation in the conduct of the affairs of the bank, as it may deem appropriate. Any such order shall become effective at the expiration of thirty days after service upon such bank and the director, officer, or other person concerned (except in the case of an order issued upon consent, which shall become effective at the time specified therein). Such order shall remain effective and enforceable except to such extent as it is stayed, modified, terminated, or set aside by action of the agency or a reviewing court.

"(f) Within ten days after a director, officer, or other person has been suspended from office and/or prohibited from participation in the conduct of the affairs of an insured bank under subsection (e)(3) of this section, such director, officer, or other person may apply to the United States district court for the judicial district in which the home office of the bank is located, or the United States District Court for the District of Columbia, for a stay of such suspension and/or prohibition pending the completion of the administrative proceedings pursuant to the notice served upon such director, officer, or other person under subsections (e)(1) or (e)(2) of this section, and such court shall have jurisdiction to stay such suspension and/or prohibition.

"(g)(1) Whenever any director or officer of an insured bank, or other person participating in the conduct of the affairs of such bank, is charged in any information or indictment, or complaint authorized by a United States Attorney, with the commission of or participation in a felony involving dishonesty or breach of trust, the appropriate Federal banking agency may, by written notice served upon such director, officer, or other person suspend him from office and/or prohibit him from further participation in any manner in the conduct of the affairs of the bank. A copy of such notice shall also be served upon the bank. Such suspension and/or prohibition shall remain in effect until such information, indictment, or complaint is finally disposed of. In the event that a judgment of conviction with respect to such offense is entered against such director, officer, or other person, and at such time as such judgment is not subject to further appellate review, the agency shall

issue and serve upon such director, officer, or other person an order removing him from office and/or prohibiting him from further participation in any manner in the conduct of the affairs of the bank. A copy of such order shall be served upon such bank, whereupon such director or officer shall cease to be a director or officer of such bank. A finding of not guilty or other disposition of the charge shall not preclude the agency from thereafter instituting proceedings to remove such director, officer, or other person from office and/or to prohibit further participation in bank affairs, pursuant to paragraphs (1) or (2) of subsection (e) of this section.

"(2) If at any time, because of the suspension of one or more directors pursuant to this section, there shall be on the board of directors of a national bank less than a quorum of directors not so suspended, all powers and functions vested in or exercisable by such board shall vest in and be exercisable by the director or directors on the board not so suspended, until such time as there shall be a quorum of the board of directors. In the event all of the directors of a national bank are suspended pursuant to this section, the Comptroller of the Currency shall appoint persons to serve temporarily as directors in their place and stead pending the termination of such suspensions, or until such time as those who have been suspended cease to be directors of the bank and their respective successors take office.

"(h)(1) Any hearing provided for in this section shall be held in the Federal judicial district or in the territory in which the home office of the bank is located unless the party afforded the hearing consents to another place, and shall be conducted in accordance with

the provisions of the Administrative Procedure Act; but such hearing shall be private, unless otherwise ordered for good cause found. After such hearing, and within ninety days after the appropriate Federal banking agency has notified the parties that the case has been submitted to it for final decision, the agency shall render its decision (which include findings of fact upon which its decision is predicated) and shall issue and serve upon each party to the proceeding an order or orders consistent with the provisions of this section. Judicial review of any such order shall be exclusively as provided in this subsection (h). Unless a petition for review is timely filed in a court of appeals of the United States, as hereinafter provided in paragraph (2) of this subsection, and thereafter until the record in the proceeding has been filed as so provided, the agency may at any time, upon the notice and in such manner as it shall deem proper, modify, terminate, or set aside any such order. Upon such filing of the record the agency may modify, terminate, or set aside any such order with permission of the court.

(2) Any party to the proceeding, or any person required by an order issued under this section to cease and desist from any of the violations or practices stated therein, may obtain a review of any order served pursuant to paragraph (1) of this subsection (other than an order issued with the consent of the bank or the director or officer or other person concerned or an order issued under paragraph (1) of subsection (g) of this section) by filing in the court of appeals of the United States for the circuit in which the home office of the bank is located, or in the United States Court of Appeals for the District of Columbia Circuit, within

thirty days after the date of service of such order, a written petition praying that the order of the agency be modified, terminated, or set aside. A copy of such petition shall be forthwith transmitted by the clerk of the court to the agency, and thereupon the agency shall file in the court the record in the proceeding, as provided in section 2112 of title 28 of the United States Code. Upon the filing of such petition, such court shall have jurisdiction, which upon the filing of the record shall except as provided in the last sentence of said paragraph (1) be exclusive, to affirm, modify, terminate, or set aside, in whole or in part, the order of the agency. Review of such proceedings shall be had as provided in the Administrative Procedure Act. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari, as provided in section 1254 of title 28 of the United States Code.

"(3) The commencement of proceedings for judicial review under paragraph (2) of this subsection shall not, unless specifically ordered by the court, operate as a stay of any order issued by the agency.

"(i) The appropriate Federal banking agency may in its discretion apply to the United States district court, or the United States court of any territory, within the jurisdiction of which the home office of the bank is located, for the enforcement of any effective and outstanding order issued by the agency under this section, and such courts shall have jurisdiction and power to order and require compliance therewith; but except as otherwise provided in this section no court shall have jurisdiction to affect by injunction or otherwise the issuance or enforcement of any notice or order under

this section, or to review, modify, suspend, terminate or set aside any notice or order.

"(j) Any director or officer, or former director or officer, of an insured bank or bank which has insured deposits, or any other person, against whom there is outstanding and effective any notice or order (which is an order which has become final) served upon such director, officer, or other person under subsections (e)(3), (e)(4), or (g)(1) of this section, and who (i) participates in any manner in the conduct of the affairs of such bank, or directly or indirectly solicits or procures, or transfers or attempts to transfer, or votes or attempts to vote, any proxies, consents, or authorizations in respect of any voting rights in such bank, or (ii) without the prior written approval of the appropriate Federal banking agency, votes for a director, serves or acts as a director, officer, or employee of any bank, shall upon conviction be fined not more than $5,000 or imprisoned for not more than one year, or both.

"(k)(1) As used in this subsection (1) the terms 'cease-and-desist order which has become final' and 'order which has become final' mean a cease-and-desist order, or an order, issued by the appropriate Federal banking agency with the consent of the bank or the director or officer or other person concerned, or with respect to which no petition for review of the action of the agency has been filed and perfected in a court of appeals as specified in paragraph (2) of subsection (h), or with respect to which the action of the court in which said petition is so filed is not subject to further review of the Supreme Court of the United States in proceedings provided for in said paragraph, or an order issued under paragraph (1) of subsection (g) of this section,

(2) the term 'violation' includes without limitation any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or aiding or abetting a violation.

"(l) Any service required or authorized to be made by the appropriate Federal banking agency under this section may be made by registered mail, or in such other manner reasonably calculated to give actual notice as the agency may by regulation or otherwise provide. Copies of any notice or order served by the agency upon any institution or any director or officer thereof, pursuant to the provisions of this section, shall also be sent to the appropriate State supervisory authority.

"(m) In connection with any action under this section involving a State bank the appropriate Federal banking agency shall, to the extent compatible with the public interest, consult with the appropriate State supervisory authority and proceed with due regard for whatever power and intent such authority may have to effect the necessary corrective action.

"(n) In the course of or in connection with any proceeding under this section, the appropriate Federal banking agency, or any member or designated representative thereof, including any person designated to conduct any hearing under this section, shall have the power to administer oaths and affirmations, to take or cause to be taken depositions, and to issue, revoke, quash, or modify subpenas and subpenas duces tecum; and such agency is empowered to make rules and regulations with respect to any such proceedings. The attendance of witnesses and the production of documents provided for in this subsection may be required from any place in any State or in any Territory or other place subject to the juris-

diction of the United States at any designated place where such proceeding is being conducted. Any party to proceedings under this section may apply to the United States District Court for the District of Columbia, or the United States district court for the judicial district or the United States court in any Territory in which such proceeding is being conducted or where the witness resides or carries on business, for enforcement of any subpena or subpena duces tecum issued pursuant to this subsection, and such courts shall have jurisdiction and power to order and require compliance therewith. Witnesses subpenaed under this section shall be paid the same fees and mileage that are paid witnesses in the district courts of the United States.

Section 203. Subsections (b) and (c) of section 10 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1820(b), (c)), are amended to read as follows:

"(b) The Board of Directors shall appoint examiners who shall have power, on behalf of the Corporation, to examine any insured State nonmember bank (except a District bank), any State nonmember bank making application to become an insured bank, and any closed insured bank, whenever in the judgment of the Board of Directors an examination of the bank is necessary. In addition to the examinations provided for in the preceding sentence, such examiners shall have like power to make a special examination of any state member bank and any national bank or District bank, whenever in the judgment of the Board of Directors such special examination is necessary to determine the condition of any such bank for insurance purposes. In making examinations of insured banks, examiners ap-

pointed by the Corporation shall have power on behalf of the Corporation, to make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon such banks. Each examiner shall have power to make a thorough examination of all of the affairs of the bank and its affiliates, and shall make a full and detailed report of the condition of the bank to the Corporation. The Board of Directors in like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits. Each claim agent shall have power to administer oaths and affirmations and to examine and to take and preserve testimony under oath as to any matter in respect to claims for insured deposits, and to issue subpenas and subpenas duces tecum, and, for the enforcement thereof, to apply to the United States district court for the judicial district or the United States court in any Territory in which the main office of the bank or affiliate thereof is located, or in which the witness resides or carries on business. Such courts shall have jurisdiction and power to order and require compliance with any such subpena.

"(c) In connection with examinations of insured banks, and affiliates thereof, the appropriate Federal banking agency, or its designated representatives, shall have the power to administer oaths and affirmations and to examine and to take and preserve testimony under oath as to any matter in respect of the affairs or ownership or any such bank or affiliate thereof, and to issue subpenas and subpenas duces tecum, and, for the enforcement thereof, to apply to the United States district court for the judicial district or the United States

court in any Territory in which the main office of the bank or affiliate thereof is located, or in which the witness resides or carries on business. Such courts shall have jurisdiction and power to order and require compliance with any such subpena. For purposes of this section, the term 'affiliate' shall have the same meaning as where used in section 2(b) of the Banking Act of 1933, as amended (12 U.S.C. 221a) except that the term 'member bank' in said section 2(b) shall be deemed to refer to an insured bank."

Sec. 204. The first five sentences of section 8(a) of the Federal Deposit Insurance Act (12 U.S.C. 1818-(a)) are amended to read as follows:

"Sec. 8. (a) Any insured bank (except a national member bank or State member bank) may, upon not less than ninety days' written notice to the Corporation, terminate its status as an insured bank. Whenever the Board of Directors shall find that an insured bank or its directors or trustees have engaged or are engaging in unsafe or unsound practices in conducting the business of such bank, or is in an unsafe or unsound condition to continue operations as an insured bank, or violated an applicable law, rule, regulation or order, or any condition imposed by the Corporation or any agreement entered into with the Corporation to which the insured bank is subject, the Board of Directors shall first give to the Comptroller of the Currency in the case of a national bank or a District bank, to the authority having supervision of the bank in the case of a State bank, and to the Board of Governors of the Federal Reserve System in the case of a State member bank, a statement with respect to such practices or violations for the purpose of securing the correction thereof and shall give a

copy thereof to the bank. Unless such correction shall be made within one hundred and twenty days, or such shorter period not less than twenty days fixed by the Corporation in any case where the Board of Directors in its discretion has determined that the insurance risk of the Corporation is unduly jeopardized, or fixed by the Comptroller of the Currency in the case of a national bank, or the State authority in the case of a State bank, or Board of Governors of the Federal Reserve System in the case of a State member bank as the case may be, the Board of Directors, if it shall determine to proceed further, shall give to the bank not less than thirty days' written notice of intention to terminate the status of the bank as an insured bank, and shall fix a time and place for a hearing before the Board of Directors or before a person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the Board of Directors shall make written findings which shall be conclusive. If the Board of Directors shall find that any unsafe or unsound practice or condition or violation specified in such statement has been established and has not been corrected within the time above prescribed in which to make such corrections, the Board of Directors may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the termination of its status as an insured bank and termination of such status thereupon may be ordered. Any insured bank whose insured status has been terminated by order of the Board of Directors under this subsection shall have

the right of judicial review of such order only to the same extent as provided for the review of orders under subsection (h) of this section."

Sec. 205. Subsection "Fourth" of section 9 of the Federal Deposit Insurance Act (12 U.S.C. 1819 "Fourth") is amended to read as follows:

"Fourth. To sue and be sued, complain and defend, in any court of law or equity, State or Federal. All suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States, and the United States district courts shall have original jurisdiction thereof, without regard to the amount in controversy; and the Corporation may, without bond or security, remove any such action, suit, or proceeding from a State court to the United States district court for the district or division embracing the place where the same is pending by following any procedure for removal now or hereafter in effect: *Provided,* That any such suit to which the Corporation is a party in its capacity as receiver of a State bank and which involves only the rights or obligations of depositors, creditors, stockholders, and such State bank under State law shall not be deemed to arise under the laws of the United States. No attachment or execution shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court. The Board of Directors shall designate an agent upon whom service of process may be made in any State, Territory, or jurisdiction in which any insured bank is located."

Sec. 206. Section 30 of the Federal Reserve Act, as amended, (12 U.S.C. 77) is hereby repealed.

No. 20724

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ACRON INVESTMENTS, INC., VELTURON CORPORATION, METRIM CORPORATION, FULLERTON COUNTRY CLUB, C. S. JONES, EDITH B. JONES, LOS COYOTES COUNTRY CLUB, BELLEHURST COUNTRY CLUB, KENNETH G. WALKER and NANCY M. WALKER,

Appellants,

vs.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION,

Appellee.

Appeal From the District Court for the Southern District of California, Central Division.

APPELLEE'S BRIEF.

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No. 20724

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Appellants,

vs.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION,

Appellee.

Appeal From the District Court for the Southern District of California, Central Division.

APPELLEE'S BRIEF.

The question presented is whether plaintiff and appellee Federal Savings and Loan Insurance Corporation (hereinafter sometimes referred to as "the Insurance Corporation") is an agency of the United States within the meaning of Section 1345 of Title 28 U.S.C. so as to give the District Court original jurisdiction over the instant suit.

Jurisdictional Statement.

The complaint seeks primarily to foreclose numerous deeds of trust. Jurisdiction was invoked under 28 U.S.C. § 1345. Defendants and appellants Velturon Corporation *et al.* and defendants and appellants Kenneth G. and Nancy M. Walker separately moved to dismiss the action for alleged lack of jurisdiction over the subject matter. The District Court denied the motions but by its order certified the question of jurisdiction to this Court under the authority of 28 U.S.C. § 1292(b). Both sets of defendants then applied to this Court for leave to appeal from said order, and such leave was granted.

Summary of Argument.

The Federal Savings and Loan Insurance Corporation is a corporate instrumentality of the United States created by Congress in 1934 for the purpose of insuring the safety of savings placed with local thrift and home-financing institutions. In 1955, Congress declared by statute that the Insurance Corporation should be an independent agency in the executive branch of the Government, and it has continued as such to the present time. The District Court has jurisdiction under 28 U.S.C. § 1345 over "all civil actions . . . commenced by . . . any agency" of the United States. The Insurance Corporation is an agency of the United States because it is either an independent establishment of the United States or a corporation in which the United States has a proprietary interest within the definition of the term

"agency" contained in 28 U.S.C. § 451. As a governmental corporation performing exclusively governmental functions, it also qualifies as an agency of the United States independently of the definition of that term in 28 U.S.C. § 451. Neither Section 1345 nor Section 451 of Title 28 U.S.C. is restricted in any way by Section 1349 of that title. Section 1349 is a limitation on jurisdiction based solely upon Federal incorporation as presenting a Federal question. The 1954 amendment to Section 1725(c) of Title 12 U.S.C. does not preclude jurisdiction of the District Court over this case, and California law cannot derogate from jurisdiction expressly conferred upon the Federal courts.

ARGUMENT.

I.

Appellee Insurance Corporation Is Either an Independent Establishment of the United States or a Corporation in Which the United States Has a Proprietary Interest Within the Meaning of Section 451 of Title 28 United States Code and Therefore an Agency of the United States Within the Meaning of Section 1345 of Title 28 United States Code.

A. The Federal Savings and Loan Insurance Corporation — What It Is and What It Does.

Congress established the Federal Savings and Loan Insurance Corporation in 1934 under Title IV of the National Housing Act as "an instrumentality of the United States" for the purpose of insuring the safety of savings placed with local thrift and home-financing institutions.[1] Insurance was then, and still is, mandatory for Federal savings and loan associations and optional for state-chartered institutions. Act of June 27, 1934, c. 847, § 403(a), 48 Stat. 1257; 12 U.S.C. § 1726(a). Under Section 402(c) of the Act, 48 Stat. 1256, the Insurance Corporation was to have succession until dissolved by Act of Congress, that is to say, it was to exist only so long as Congress willed that it should exist; and that provision still remains in the statute. 12 U.S.C. § 1725(c), as amended. Initially, the Corporation's operations were placed under the direction of a board of trustees consisting of the members of the Federal Home Loan Bank Board.[2] Act of June 27, 1934, c. 847, § 402(a), 48 Stat. 1256.

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[1]Act of June 27, 1934, c. 847, §§ 402(a), 402(c) and 403(a), 48 Stat. 1256; 12 U.S.C. §§ 1725(a), 1725(c) and 1726(a).

[2]The Federal Home Loan Bank Board was created under Section 17 of the Federal Home Loan Bank Act, Act of July 22,

The capital stock of the Insurance Corporation, in the amount of $100 million, was subscribed for by the Home Owners' Loan Corporation (hereinafter sometimes referred to as "the HOLC").[3] In 1948, all of the HOLC's interest in the Insurance Corporation's stock was transferred to the Secretary of the Treasury; and by July 1958, all of the stock had been retired through annual payments to the Treasury. (See pp. 12-13, *infra.*)

Effective July 27, 1947, the Insurance Corporation, the HOLC, the Federal Housing Administration, the United States Housing Authority, the Defense Homes Corporation and the United States Housing Corporation, and their respective functions, together with the functions of the Federal Home Loan Bank Board (and certain other functions), were consolidated into a single agency known as the Housing and Home Finance Agency. Section 1 of Reorg. Plan No. 3 of 1947, 12 F. R. 4981, 61 Stat. 954, note under 5 U.S.C. § 133y-16. The Housing and Home Finance Agency was in turn divided into three constituent agencies, viz., the Home Loan Bank Board, the Federal Housing Administration and the Public Housing Administration (*idem.*); and all of the functions of the Federal Home Loan Bank Board, the Board of Trustees of the Federal Savings and Loan Insurance Corporation, and the Board of Directors of

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1932, c. 522, 47 Stat. 736, to supervise the Federal Home Loan Banks established under that Act. Later, under sections 2 and 5 of the Home Owners' Loan Act of 1933, Act of June 13, 1933, c. 64, 48 Stat. 128, 132, the Federal Home Loan Bank Board was empowered to charter, regulate and supervise Federal savings and loan associations. See 12 U.S.C. §§ 1462, 1464.

[3]Although the stock was subscribed for in the name of the HOLC, 12 U.S.C. § 1725(b), all of the stock in the HOLC was owned by the United States. Section 4(b) of the Home Owners' Loan Act of 1933, 48 Stat. 129.

the HOLC (plus certain other functions) were, by Section 2 of said Reorganization Plan, transferred to the Home Loan Bank Board.

As of August 11, 1955, pursuant to the Act of August 11, 1955, c. 783, § 109(a)(3), 69 Stat. 640, Section 17 of the Federal Home Loan Bank Act was amended to add subsection (b) thereto. 12 U.S.C. § 1437(b). Under this amendment the Home Loan Bank Board ceased to be a constituent agency of the Housing and Home Finance Agency and became "an independent agency (including the Federal Savings and Loan Insurance Corporation) in the executive branch of the Government." In addition, the Board was renamed the Federal Home Loan Bank Board. This statutory scheme has continued to the present time.

From the foregoing brief history, the Court can see that the Insurance Corporation has from its inception been an integral part of the United States Government.

B. Legislative History and Interrelationship of Sections 1345 and 451 of the Judicial Code.

Section 1345 of Title 28 U.S.C. was enacted in 1948 and provides as follows:

> "§ 1345. United States as plaintiff
>
> Except as otherwise provided by Act of Congress, the district courts shall have original jurisdiction of all civil actions, suits or proceedings commenced by the United States, or by any agency or officer thereof expressly authorized to sue by Act of Congress. June 25, 1948, c. 646, 62 Stat. 933."[4]

[4]Congress has enacted special legislation authorizing civil actions commenced by the Insurance Corporation. Section 402(c) of

Section 1345 has its roots in the First Judiciary Act, which gave the district courts jurisdiction, concurrent with the state courts, "of all suits at common law where the *United States* shall sue" (emphasis added), subject to a jurisdictional amount requirement of $100.[5] The Act gave the circuit courts jurisdiction, likewise concurrent, "of all suits of a civil nature at common law or in equity," subject to a jurisdictional amount requirement of $500.[6]

In 1815, both the district courts and the circuit courts were given jurisdiction of "all suits at common law" where either "the United States, *or any officer thereof*, under the authority of an act of Congress, shall sue" (emphasis added); and the requirement of the jurisdictional amount in such suits was dropped.[7]

When the circuit courts were abolished in 1911, their jurisdiction in suits by the United States was trans-

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the National Housing Act, as amended, 12 U.S.C. § 1725(c), as amended, declares in part that

> "On June 27, 1934, the [Federal Savings and Loan Insurance] Corporation shall become a body corporate and shall be an instrumentality of the United States, and as such shall have power . . . (4) to sue and be sued, complain and defend, in any court of competent jurisdiction in the United States or its Territories or possessions or the Commonwealth of puerto Rico, . . ."

Appellee has never contended, as appellants Walker claim (Op. Br. pp. 4-5), that this section, standing by itself, invests the District Court with jurisdiction of this action.

[5]Act of September 24, 1789, § 9, 1 Stat. 73, 77.

[6]*Ibid.*, § 11, 1 Stat. 78.

[7]Act of March 3, 1815, § 4, 3 Stat. 244, 245. The Judiciary Act of 1875 restored the $500 amount requirement in the circuit courts in suits at common law as well as in equity "in which the United States are plaintiffs or petitioners." Act of March 3, 1875, § 1, 18 Stat. 470. Twelve years later, the requirement of a jurisdictional amount was permanently eliminated. Act of March 3, 1887, 24 Stat. 552; corrected by Act of August 13, 1888, 25 Stat. 433.

ferred to the district courts. To it was added cognizance of all civil actions, equitable as well as legal, brought by Federal officers "authorized by law to sue."[8]

Finally,[9] in 1948, the "Word 'agency' was inserted in order that this section shall apply to actions by agencies of the Government and to conform with special acts authorizing such actions." Reviser's Note to 28 U.S.C. § 1345.[10]

Thus, the legislative history of this section and its forerunners show that Congress has steadily widened the jurisdiction of the Federal trial courts over civil litigation instituted by the Federal Government. When the word "agency" was added in 1948, the last obstacle to Federal access to the national courts was removed. In light of this history, we submit that in deciding this appeal the Court should favor a broad construction of Section 1345 of Title 28, a construction in keeping with the manifest intent of Congress to open wide the Federal courts to civil suits brought by any arm of the United States.[11]

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[8]Act of March 3, 1911, § 24, 36 Stat. 1087, 1091.

[9]The statutory development of 28 U.S.C. § 1345, as set forth herein, has been taken from *Hart & Wechsler, The Federal Courts and the Federal System* (1953) at pages 1107-1108.

[10]The Reviser's Note is actually made a part of the House Report (No. 308) accompanying the bill (H.R. 3214, 80th Congress, Second Session) which brought about the 1948 revision of the Judicial Code. Such Reviser's Notes are regarded as authoritative in interpreting the meaning of the Code. *United States v. National City Lines* (1949), 337 U.S. 78, 81; *United States ex rel. Almeida v. Baldi* (3d Cir. 1952), 195 F. 2d 815, cert. den. (1953), 345 U.S. 904, reh. den. (1953), 345 U.S. 946. Despite the authoritative character of the Reviser's Notes, appellants make no reference to any of them in their briefs.

[11]In this connection, it should be observed that the Insurance Corporation is performing a governmental function "as part of an economical system set up by Congress for the benefit of the people

Section 451 of Title 28 U.S.C. was also enacted in 1948 and provides in pertinent part as follows:

"§ 451. Definitions

As used in this title:

* * *

"The term 'agency' includes any department, independent establishment, commission, administration, authority, board or bureau of the United States or any corporation in which the United States has a proprietary interest, unless the context shows that such term was intended to be used in a more limited sense. June 25, 1948, c. 646, 62 Stat. 907."

The Reviser's Note to Section 451 explains that "The definitions of agency and department conform with such definitions in section 6 of revised Title 18, Crimes and Criminal Procedure." The significance of this reference to Section 6 of Title 18 insofar as the question presented for decision here is concerned is pointed out at pages 13-15, *infra*.

Appellants Acron *et al.* contend (Op. Br. pp. 5, 9, 12) that whenever a government corporation is alleged to be an agency of the United States for purposes of jurisdiction, it can qualify as such only under the last clause of 28 U.S.C. § 451 referring to "any corporation in which the United States has a proprietary interest." In defining the term "agency," however, the statute is phrased in the disjunctive. In other words, a government corporation may be a corporation in which the United States has a proprietary interest *or* it may fit

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as a whole." *Federal Savings and Loan Insurance Corp. v. Edison Sav. and Loan Ass'n* (S.D. N.Y. 1949), 83 F. Supp. 1007, 1009, aff'd (2d Cir. 1949), 177 F. 2d 638.

within one of the previous categories mentioned in the section, such as being an independent establishment of the United States. Hence, if the Insurance Corporation qualifies under any one of the disjunctive definitions in Section 451, it is an agency for purposes of Title 28.

C. The Federal Savings and Loan Insurance Corporation Is an Independent Establishment of the United States as Defined in 28 United States Code, Section 451.

Section 17(b) of the Federal Home Loan Bank Act, 12 U.S.C. § 1437(b), added to said Act by the Act of August 11, 1955, c. 783, 69 Stat. 640, provides in part as follows:

> "§ 1437. *Federal Home Loan Bank Board; creation; composition; powers and duties; salaries; independent agency; report to Congress*"
>
> * * *
>
> "(b) The Home Loan Bank Board which was, pursuant to Reorganization Plan Numbered 3 of 1947, established and made a constituent agency of the Housing and Home Finance Agency shall, from August 11, 1955, cease to be such a constituent agency and shall be an independent agency (including the Federal Savings and Loan Insurance Corporation) in the executive branch of the Government: . . . The name of the Home Loan Bank Board is changed to 'Federal Home Loan Bank Board.'"

By this statute Congress has expressly defined the status of the Federal Savings and Loan Insurance Corporation to be that of an independent agency in the executive branch of the Government. An independent agency in the executive branch of the Government is

clearly an "independent establishment of the United States," and therefore the Insurance Corporation fits within one of the definitions of the term "agency" found in 28 U.S.C. § 451. On this basis alone, the Insurance Corporation, as an agency of the United States, falls within the purview of Section 1345 of Title 28 U.S.C. and is entitled to invoke the jurisdiction of the District Court.

Appellants Walker (Op. Br. pp. 28-29) belabor the point that Section 1437(b) of Title 12 U.S.C. does not constitute an independent grant of jurisdiction to sue in the District Court. Appellee agrees. The fact remains, however, that under the first sentence of this section Congress has made the Insurance Corporation an independent agency in the executive branch of the Government; wherefore, the Corporation falls within the ambit of 28 U.S.C. § 451, and thus is entitled to the benefit of 28 U.S.C. § 1345.

D. The Federal Savings and Loan Insurance Corporation Is a Corporation in Which the United States Has a Proprietary Interest as Defined in 28 United States Code, Section 451.

"Agency," as defined in 28 U.S.C. § 451, includes any corporation in which the United States has "a proprietary interest." The United States not only has *a* proprietary interest in the Insurance Corporation — it has the *entire* proprietary interest in such Corporation.

The Insurance Corporation was created by Congress in 1934 under Section 402(a) of the National Housing Act, 12 U.S.C. § 1725(a). The Corporation's capital structure was set out in Section 402(b) of said Act, 12 U.S.C. § 1725(b). It was to have a capital stock of

$100,000,000, and this stock was to be subscribed and paid for *in toto* by the Home Owners' Loan Corporation.

In 1948, all of the right, title and interest of the HOLC in the capital stock of the Insurance Corporation was transferred to the Secretary of the Treasury pursuant to the Government Corporations Appropriation Act of 1949, 62 Stat. 1183, 1189.

In 1950, a new subsection (Subsection (h)) was added to Section 402 of the National Housing Act, 12 U.S.C. § 1725(h), which directed the Insurance Corporation "to pay off and retire annually at par an amount of its capital stock equal to 50 per centum of its net income for the fiscal year." By July 1958, the stock had been retired in full. The Federal Home Loan Bank System (1961) page 26 (Library of Congress Catalog Card Number 61-60073).[12]

When, in 1948, the HOLC transferred all of the Insurance Corporation's stock to the Secretary of the Treasury, such transfer vested in the United States the entire proprietary interest in the Insurance Corporation; and although the stock was later retired in full, the United States was still left with the entire proprietary interest in the Corporation. Stated otherwise, the retirement of all the stock of the Insurance Corporation, completed in July 1958, did not serve to transfer the Corporation's ownership from the United States to some other entity, in the absence of an Act of Congress effecting such a transfer. This conclusion is buttressed by the fact that under Section 402(c) of the National Housing

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[12]The court may take judicial notice of this official publication. *Greeson v. Imperial Irrigation District* (1932), 59 F. 2d 529.

Act, as amended, 12 U.S.C. § 1725(c), as amended, Congress can dissolve the Insurance Corporation at any time. Such power of dissolution residing solely in the Congress of the United States negatives the existence of a proprietary interest in the Corporation on the part of anyone other than the United States.[13]

That the Insurance Corporation is an agency of the United States because it is a corporation in which the United States has a proprietary interest is further demonstrated by certain of the Reviser's Notes to the Judicial Code. As heretofore mentioned, the Reviser's Note to Section 451 of Title 28 explains that "The definitions of agency and department conform with such definitions in section 6 of the revised Title 18, Crimes and Criminal Procedure." The Reviser's Note to Section 6 of Title 18 contains a significant statement as to what Congress intended when it used the phrase "corporation in which the United States has a proprietary interest" in Section 451. In this regard the Reviser says:

> "The phrase 'corporation in which the United States has a proprietary interest' is intended to include *those governmental corporations in which stock is not actually issued*, as well as those in which stock is owned by the United States. It excludes those corporations in which the interest of the Government is custodial or incidental."[14] (Emphasis supplied.)

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[13]*Cf. Fahey v. O'Melveny & Myers* (9th Cir. 1952), 200 F. 420, 444, 470. It should be noted that each insured institution has, under existing law, a contingent interest limited to certain secondary reserves of the Corporation with respect to which that institution has made specific payments. 12 U.S.C. § 1727(d), (e), (f) and (g).

[14]Since the definition of the term "agency" found in Section 451 of Title 28 conforms with the definition of that term

That the Insurance Corporation is a governmental corporation performing a governmental function is beyond cavil, if only because of the brief recital of facts set forth under Point A above. The Government Corporation Control Act, Act of December 6, 1945, c. 557, 59 Stat. 597, 31 U.S.C. §§ 841 *et seq.* characterizes it as a "Government corporation." Subchapter II of that Act is entitled "WHOLLY OWNED GOVERNMENT CORPORATIONS." The first section of the subchapter, 31 U.S.C. § 846, as amended, defines the term "wholly owned Government corporation" to include the Federal Savings and Loan Insurance Corporation.[15] The purpose of the Government Corporation Control Act is to bring *Government corporations* and their transactions and operations under annual scrutiny by Congress and provide current financial control thereof. 31 U.S.C. § 841.[16] The cases also hold that the Insurance Corporation is a governmental corporation performing governmental functions. *Federal Savings and Loan Ins. Cory v. Third National Bank* (6th Cir. 1946), 153 F. 2d 678, 679-680; *Federal Savings and Loan Ins. Corp. v. Kearney Trust Co.* (8th Cir. 1945), 151 F. 2d 720, 725; see *Keifer & Keifer v. Reconstruction Finance Corp.* (1939), 306 U.S. 381, 390, Footnote 3; *cf. Fahey v.*

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found in Section 6 of Title 18, the above-quoted Reviser's Note to Section 6 is equally applicable in construing Section 451.

[15]Under Section 402(h) of the National Housing Act, 12 U.S.C. § 1725(h), the fact that the Insurance Corporation's capital stock has now been retired does not affect the applicability to said Corporation of the Government Corporation Control Act. For more details concerning the retirement of this stock, see pages 12-13, *supra*.

[16]Appellee has never claimed that the Government Corporation Control Act is "a grant of jurisdiction to the United States District Court," as hypothesized by appellants Walker at pages 7-8 of their opening brief.

O'Melveny & Myers (9th Cir. 1952), 200 F. 2d 420, 446-447 (similar conclusion reached with respect to the Federal Home Loan Banks, which are also subject to control and supervision by the Federal Home Loan Bank Board). See also Point II, *infra*.[17]

Since the Reviser's Note states that the phrase "corporation in which the United States has a proprietary interest" includes governmental corporations "in which stock is not actually issued," the Insurance Corporation falls within this category because now that its stock has been retired, the Corporation is in exactly the same position as if none of its stock had ever been issued.

In this connection, appellants Acron *et al.* maintain (Op. Br. p. 9) that to have a proprietary interest in a corporation, one must own stock therein. As observed in the Reviser's Note to Section 6 of Title 18, however, neither issuance nor ownership of stock is a prerequisite to qualification of a government corporation (such as the Insurance Corporation) as one in which the United States has a proprietary interest.[18] *Cf.*

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[17]This Court in the *Fahey* case expressly held that the Federal Home Loan Banks are governmental corporations performing governmental functions and not private corporations, although their stock is owned by the member savings and loan associations and like institutions. (200 F. 2d at pp. 446, 447, 454, 455, 467, 469 and 470.) The Insurance Corporation, none of whose stock is privately owned, is even more clearly a governmental corporation performing governmental functions. This effectively disposes of appellants Walkers' contention (Op. Br. pp. 32-33) that the Insurance Corporation is akin to a private business corporation.

[18]Appellants Walker (Op. Br. pp. 27, 33) characterize the Insurance Corporation as one which "operates at a profit". If they mean that the Corporation's gross receipts are larger than its gross expenses to date, they are correct, and this must continue to be the case if there is to be an insurance fund to protect the public's savings. If, however, they mean that the Corporation exists solely for the purpose of earning sufficient income to pay dividends to its owners, they are wrong.

such other nonstock government corporations as Federal Prison Industries, Incorporated, 18 U.S.C. §§ 4121 *et seq.;* Saint Lawrence Seaway Development Corporation, 33 U.S.C. §§ 981 *et seq.;* and Virgin Islands Corporation, 48 U.S.C. §§ 1407 *et seq.,* each of which is nonetheless defined as a "wholly owned Government corporation" under Section 101 of the Government Corporation Control Act, 31 U.S.C. § 846, as amended.

It is clear from the foregoing that the Insurance Corporation has more than met the minimal standard imposed by the last clause of Section 451 of Title 28 U.S.C. which merely requires that the United States have *a* proprietary interest in a corporation in order to qualify it as an "agency."[19]

II.

The Insurance Corporation Should Be Regarded as an Agency of the United States Within the Meaning of 28 United States Code, Section 1345, Independently of the Limited Definition of the Term "Agency" in 28 United States Code, Section 451.

Appellants Acron *et al.* contend (Op. Br. pp. 5, 8) that the Insurance Corporation's status as an agency within the meaning of 28 U.S.C. § 1345 depends entirely upon whether it is an agency as defined in 28 U.S.C. § 451. Section 451 does not, however, purport to contain an exclusive definition of the term "agency" as used in Title 28. The section declares that the term "includes" certain Governmental subdivisions, *e.g.,* departments, independent establishments, commissions, boards,

[19]The proprietary interest of the United States must, however, be more than custodial or incidental. See page 13, *supra.*

etc., as well as corporations in which the United States has a proprietary interest. Assuming that the word "includes" is used in its normal sense as suggesting that something forms a constituent or subordinate part of a whole (Webster's New Collegiate Dictionary, 2d. Ed. 1953), the section does not purport to give an all inclusive definition of "agency" as that term is used in Title 28. Accordingly, in determining whether the Insurance Corporation is an agency of the United States for the purpose of invoking the District Court's jurisdiction under 28 U.S.C. § 1345, this Court is not limited to the definition of the word "agency" appearing in 28 U.S.C. § 451 but may also consider those incidents and attributes of the Insurance Corporation's creation, existence and operation which show the extent to which Congress intended that it should be viewed as an integral arm of the United States Government. Such an approach is consonant with the Congressional pattern of action in enlarging access to the Federal courts by the United States and the instrumentalities created by Congress to carry on the Government's business. See Point 1B above.

Apart from the fact that the Federal Home Loan Bank Act has declared that the Insurance Corporation shall be an independent agency in the executive branch of the Government, the National Housing Act creating the Insurance Corporation expressly makes it "an instrumentality of the United States." 12 U.S.C. 1725 (c), as amended. Webster's New Collegiate Dictionary (2d. Ed. 1953) defines "instrumentality" as meaning "agency." The courts, too, use these terms interchangeably. Thus, in *Federal Land Bank v. Priddy* (1935),

295 U.S. 229, the Supreme Court of the United States said at page 231:

> ". . . this Court has already had occasion to consider the organization and functions of federal land banks, and to declare that they are *instrumentalities of the federal Government,* engaged in the performance of an important governmental function." (Citing cases.) "As such, so far as they partake of the sovereign character of the United States, Congress has full power to determine the extent to which they may be subjected to suit and judicial process." (Citing case.) "Whether *federal agencies* are subject to suit and, if so, the extent to which they are amenable to judicial process, is thus a question of congressional intent." (Emphasis added.)

Furthermore, the Insurance Corporation is under the direction of, and operated by, a three man Board, *i.e.*, the Federal Home Loan Bank Board, Section 402(a) of the National Housing Act, 12 U.S.C. § 1725(a), whose members are appointed by the President of the United States, by and with the advice and consent of the Senate. 1947 Reorg. Plan No. 3, as amended Aug. 10, 1948, c. 832, Title V, § 501(a), 62 Stat. 1283. The Corporation is entitled to the use of the United States mails for its official business in the same manner as the executive departments of the Government. Section 402(c) of the National Housing Act, as amended, 12 U.S.C. § 1725(c), as amended; Act of September 2, 1960, 39 U.S.C. §§ 4151, 4152 and 4156. It may also avail itself of the use of information, services and facilities of other Government departments or instrumentalities. 12 U.S.C. § 1725(c). It is subject to audit

by the General Accounting Office. Act of December 6, 1945, c. 557, 59 Stat. 597, 31 U.S.C. §§ 841 *et seq.* Monies of the Corporation not required for current operations are deposited in the United States Treasury or, with the approval of the Secretary of the Treasury, may be deposited with a Federal Reserve Bank or a bank designated as a depositary or fiscal agent of the United States, or they may be invested in obligations of the United States. Section 402(d) of the National Housing Act, 12 U.S.C. § 1725(d); Section 302 of the Government Corporation Control Act, 31 U.S.C. § 867. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depositary of public money and may also be employed as fiscal agent of the United States. (*Idem.*) Except as to its real property, the Corporation is exempt from taxation by the United States or any State or other taxing authority. Section 402(e) of the National Housing Act, 12 U.S.C. § 1725(e). All notes, bonds, or other obligations issued by it are exempt from taxation, excepting surtaxes, estate, inheritance, and gift taxes. (*Idem.*) The Corporation may borrow up to $750,000,000 at any one time from the Treasury of the United States. Section 402(i) of the National Housing Act. 12 U.S.C. § 1725(i). All such loans are treated as public-debt transactions of the United States. (*Idem.*) Finally, the Corporation may be dissolved at any time by Act of Congress, which emphasizes the fact that no private person or institution has any interest in this purely Governmental corporation. Section 402(c) of the National Housing Act, as amended, 12 U.S.C. § 1725(c), as amended.

The above-mentioned factors demonstrate that the Insurance Corporation is an integral arm of the Fed-

eral government; wherefore, it must be regarded as an agency of the United States entitled to the jurisdictional privileges accorded by 28 U.S.C. § 1345.

The Court of Appeals for the Tenth Circuit came to a similar conclusion in an analogous situation involving the Federal Deposit Insurance Corporation (hereinafter sometimes referred to as "the FDIC"), the counterpart of the Insurance Corporation for commercial banking. *Freeling v. F.D.I.C.* (10th Cir. 1963), 326 F. 2d 971, affirming *per curiam* on the basis of the opinion below, *Freeling v. F.D.I.C.* (N.D. Okl. 1962), 221 F. Supp. 955.

On of the questions there raised was whether the FDIC was a "Federal agency" within the meaning of the Federal Tort Claims Act, Act of August 2, 1946, c. 753, 60 Stat. 842. "Federal agency" is defined in 28 U.S.C. § 2671 dealing with Tort Claims Procedure as including "the executive departments and independent establishments of the United States, and corporations primarily acting as instrumentalities or agencies of the United States but does not include any contractor with the United States," a definition which is no broader than that set forth in 28 U.S.C. § 451.[20]

The Court in *Freeling* held that the FDIC was a "Federal agency" within the meaning of 27 U.S.C. § 2671. This holding (221 F. Supp. at p. 956) was based on the statutory provisions creating the FDIC. 12 U.S.C. §§ 1811 *et seq.* The district court pointed out that two of the three members of the Board of Directors of the FDIC are appointed by the President; that the Secretary of the Treasury has to approve certain

[20]This is particularly true if the use of the word "agencies" in 28 U.S.C. § 2671 requires resort to the definition of "agency" in 28 U.S.C. § 451.

of its investments; and that it has to report annually to Congress as to its financial condition. The court also relied on the fact that the FDIC was regarded as a "mixed-ownership government corporation" under the Government Corporation Control Act, *supra*, whose financial transactions were required to be audited annually by the General Accounting Office.[21]

All the indicia employed by the Court in *Freeling* to establish that the FDIC is a "Federal agency" are, as shown above, also present with respect to the Insurance Corporation. Indeed, as set forth at page 14, *supra*, the Insurance Corporation has been classified by Congress as a "wholly owned Government corporation" and not merely one of "mixed-ownership." On the basis of *Freeling* alone, this Court should hold that the Insurance Corporation is an "agency" within the meaning of 28 U.S.C. § 1345, and that therefore the District Court has jurisdiction of the instant action.

III.

Section 1349 of Title 28 United States Code in No Way Limits the Meaning of the Word "Agency" as That Term is Used in 28 United States Code, Section 1345, and Defined in 28 United States Code, Section 451.

Both sets of appellants contend (Acron Op. Br. pp. 9-10; Walker Op. Br. p. 28) that Section 1349 of Title 28 U.S.C. in some way restricts or governs the meaning of the word "agency" as that term appears in Section 451 of Title 28 and in Section 1345 of the same

[21]See also *Pearl v. United States* (10th Cir. 1956), 230 F. 2d 243, 245; *Handley v. Tecon Corp.* (N.D. N.Y. 1959), 172 F. Supp. 565, 568; *Wickman v. Inland Waterways Corporation* (D.C. Minn. 1948), 78 F. Supp. 284.

title. Such contention is palpably unsound, as can be easily demonstrated.

Section 1349 of Title 28 U.S.C. provides as follows:

> "§1349. *Corporation organized under federal law as party.*
>
> The district courts shall not have jurisdiction of any civil action by or against any corporation upon the ground that it was incorporated by or under an Act of Congress, unless the United States is the owner of more than one-half of its capital stock."

Section 1349 of Title 28 U.S.C. is not related to either 28 U.S.C. § 1345 or 28 U.S.C. § 451. Section 1349 by its own terms is a limitation upon jurisdiction based upon Federal incorporation. The statutory progenitor of the present Section 1349 of Title 28 U.S.C. was enacted in 1925. Act of February 13, 1925, c. 229, § 12, 43 Stat. 941. Prior thereto Federal incorporation was, unless withheld by Congress,[22] a ground for Federal jurisdiction when coupled with the necessary jurisdictional amount, on the theory that such incorporation raised a Federal question. See *Federal Civil Practice Handbook* (Calif. Cont. Ed. of the Bar 1961), page 105.

Section 1345 of Title 28 U.S.C., on the other hand, is an affirmative grant of Federal jurisdiction. It in no way relates to jurisdiction based on Federal incorporation. As we have demonstrated, *supra,* pages 6-10, 28 U.S.C. § 1345 represents the latest Congressional enactment opening the doors of the Federal courts to the United States and its instrumentalities regardless of the par-

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[22]See Act of July 12, 1882, c. 290, § 4, 22 Stat. 162 (national banks); Act of January 28, 1915, c. 12, § 5, 38 Stat. 803 (railroad corporations).

ticular question of law involved and regardless of jurisdictional amount. By this enactment on June 25, 1948, long after the limitation on Federal incorporation jurisdiction was adopted by the Act of February 13, 1925, Congress gave every "agency" of the United States the right to invoke Federal court jurisdiction where the agency, as here, had been expressly authorized to sue by Congress. How a section of the Judicial Code enacted in 1925 for the purpose of limiting Federal incorporation jurisdiction can affect a grant of jurisdiction enacted in 1948, which is unrelated to Federal incorporation, is difficult to understand. Indeed, the judicial decisions make it clear that where jurisdiction is based on a ground other than Federal incorporation, Section 1349 can have no application. *Elwert v. Pac. First Fed. Sav. & Loan Assn.* (E.D. Ore. 1956), 138 F. Supp. 395; *Patterson v. American Red Cross* (S.D. Fla. 1961), 101 F. Supp. 655. Since jurisdiction here rests upon another ground of jurisdiction, namely, 28 U.S.C. 1345, Section 1349 of 28 U.S.C. has no application.

Appellants Acron *et al.* argue (Op. Br. pp. 9-10) that the phrase "corporation in which the United States has a proprietary interest" found in 28 U.S.C. § 451 is restricted to a corporation in which the United States owns more than one-half of the stock in light of 28 U.S.C. § 1349. This is absurd. Section 1349 does not even use the word "agency." It is concerned only with whether the United States owns more than 50% of a Federally organized corporation. Section 451, on the other hand, is concerned with a definition of the term "agency" and includes within that definition a corporation in which the United States need have only a proprietary interest.

Appellants Walker rely heavily (Op. Br. pp. 17-24) upon the opinion of the lower court in *Federal Savings and Loan Insurance Corporation v. Third National Bank* (M.D. Tenn. 1945), 60 F. Supp. 110, reversed (6th Cir. 1946), 153 F. 2d 678. Their reliance upon this decision as a precedent is misplaced. None of the grounds for Federal jurisdiction over the subject matter asserted in the *Third National Bank* case is relied upon by appellee as a ground for Federal jurisdiction in the instant case. Furthermore, that case was decided before Section 1345 of Title 28 U.S.C. was adopted in 1948. Accordingly, there the Insurance Corporation did not have the benefit of this more recent ground of jurisdiction in the district courts over suits commenced by any "agency" of the United States, which is the ground upon which appellee bases its claim of jurisdiction herein. Finally, the value of the district court's opinion in the *Third National Bank* case is dubious at best in light of the reversal by the Sixth Circuit.

IV.

Statutes Pertaining to Other Federal Corporations Are Not Apposite Here.

Appellants Acron *et al.* refer (Op. Br. pp. 10-12) by way of analogy to statutes creating three other Federal corporations and contrast them with the statute creating the Insurance Corporation in an effort to show that appellee cannot bring this suit in the District Court. Said appellants first mention the Commodity Credit Corporation created under the Act of June 29, 1948, c. 704, § 2, 62 Stat. 1070, 15 U.S.C. § 714. They call attention to Section 714b(c) of Title 15 U.S.C. empowering said corporation to sue and be sued and assert that the District Court's jurisdiction over such suits is expressly provided for in said section. They

argue in effect that if Congress had intended that the Insurance Corporation be allowed to sue in the District Courts, it would have specifically so provided in the statute creating the Corporation (12 U.S.C. § 1725 (c), as amended), as Congress allegedly did with reference to the Commodity Credit Corporation. In the case of the Commodity Credit Corporation, however, jurisdiction is vested *exclusively* in the District Courts by the terms of Section 714b(c), whereas the Insurance Corporation has the choice of suing in the Federal courts under 28 U.S.C. § 1345 or of suing in the State courts in an appropriate situation. In other words, Section 714b(c) of Title 15 U.S.C. is both a *limitation* on jurisdiction and a grant of jurisdiction, and appellants Acron *et al.* are in effect comparing "oranges and apples."

Said appellants next refer (Op. Br. p. 11) to the Federal Crop Insurance Corporation created under the Act of February 16, 1938, c. 30, Title V, § 503, 7 U.S.C. § 1503. They direct attention to Section 1506(d) of Title 7 U.S.C. containing a "sue and be sued" clause with regard to said corporation and assert that under the same section "jurisdiction is conferred upon such District Court to determine such controversies without regard to the amount in controversy."

Finally (Op. Br. p. 11), said appellants mention the Federal Deposit Insurance Corporation, originally created as a part of the Federal Reserve Act by Act of June 16, 1933, c. 89, § 8, 48 Stat. 168, 12 U.S.C. § 1811. Under 12 U.S.C. § 1819, the FDIC has power to "sue and be sued, complain and defend, in any court of law or equity, State or Federal." Later in the same section it is provided that such suits "shall be deemed

to arise under the laws of the United States." Said appellants seem to be urging that the absence of such a provision from the act creating the Insurance Corporation indicates an intention on the part of Congress that the Insurance Corporation be debarred from suing in the Federal courts, but they overlook the fact that the purpose of this "Federal question" provision in the statute creating the FDIC was not merely to confer jurisdiction on the District Court but to insure that Federal, as opposed to State, law would be applied in such a suit. *D'Oench, Duhme & Co. v. Federal Deposit Insurance Corporation* (1941), 315 U.S. 447, 468.

Appellants Acron *et al.* fail to mention that the Federal Crop Insurance Corporation and the Federal Deposit Insurance Corporation were both organized by Congress before June 25, 1948, when an "agency" of the United States was for the first time given the right to invoke the district court's jurisdiction under 28 U.S.C. § 1345. Hence, if the district courts were to have jurisdiction over actions commenced by either of said corporations at the time of their creation, it was necessary to make some express provision therefor. Moreover, if Congress were obliged to include a specific grant of Federal court jurisdiction in the statute creating every governmental instrumentality, as said appellants seemingly contend, the effect would be to render Section 1345 of Title 28 U.S.C. nugatory insofar as agencies of the United States are concerned.

The moral of all this is that statutes enacted at different times controlling the affairs of Government corporations performing such diverse functions as the regulation of commodity credit and the insuring of accounts in savings and loan associations will necessarily

vary in their language and approach. Because of these normal variations it is meaningless to analogize one statute with another and to attempt to spell out any consistent pattern of Congressional intent.

V.

Neither the 1954 Amendment to Section 1725(c) of 12 United States Code Nor the California Constitution Requires That This Action Be Commenced in the Superior Court of the State of California for the County of Orange.

Appellants Walker contend (Op. Br. pp. 10-11) that by the change in language in the August 2, 1954 amendment to Section 402(c)(4) of the National Housing Act, 12 U.S.C. § 1725(c)(4), Congress intended to limit the jurisdiction of the Federal courts over matters involving the Federal Savings and Loan Insurance Corporation. Implicit in this contention is the admission that prior to the 1954 amendment there *was* such Federal court jurisdiction.[23]

The purpose of the 1954 amendment to 12 U.S.C. § 1725(c)(4) was not, as said appellants suggest, to limit jurisdiction but, in the words of the Reviser's Note to that section, "to provide a method of service of process on the Corporation." The change of language in the "sue and be sued" clause was merely incidental to the main purpose of the amendment. The words "any court of competent jurisdiction" were no doubt designed to bring the section into conformity with modern Federal and State practice abolishing separate courts of law and equity. As we have demonstrated

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[23]In light of this implied admission, the district court's pre-1954 decision in the *Third National Bank* case, relied on so heavily by appellants Walker, must have been erroneous.

under Points I and II above, the District Court is a court of competent jurisdiction insofar as the instant suit is concerned because of Section 1345 of Title 28 U.S.C.

Appellants Walker argue (Op. Br. pp. 11-14) that the only "court of competent jurisdiction" in which the instant suit may be maintained is the Superior Court of the State of California for the County of Orange, that being the county in which the real property sought to be foreclosed upon is situated. This argument is premised upon Section 5 of Article VI of California Constitution providing that all actions for the enforcement of liens upon real estate shall be commenced in the County in which the real estate is situated.

This State constitutional provision cannot be availed of to restrict a clear grant of jurisdiction to the Federal courts, such as that found in Section 1345 of Title 28 U.S.C. The jurisdiction of Federal courts over cases within the field of their jurisdiction cannot be enlarged, diminished or impaired by State statutes or regulations; and a person may not be deprived of his right to resort to the Federal courts by State legislation. As the United States Supreme Court observed in *Chicago and N. W. Railway Co. v. Whitton* (1871), 80 U.S. 270, 286:

> "In all cases, where a general right is thus conferred, it can be enforced in any Federal court within the State having jurisdiction of the parties. It cannot be withdrawn from the cognizance of such Federal court by any provision of State legislation that it shall only be enforced in a State court. *The statutes of nearly every State provide for the*

> *institution of numerous suits, such as for* partition, *foreclosure,* and the recovery *of real property in particular courts and in the counties where the land is situated, yet it never has been pretended that limitations of this character could affect, in any respect, the jurisdiction of the Federal court over such suits. . . .*" (Emphasis supplied.)

See also *Akin v. Louisiana National Bank of Baton Rouge* (4th Cir. 1963), 322 F. 2d 749, 754 (Federal jurisdiction cannot be defeated by a state statute prescribing the court in which an action is to be brought); *Sacramento Municipal Utility District v. Pacific Gas and Electric Company* (1942), 20 Cal. 2d 684, 688.

VI.

Appellee's Attempt to Obtain Clarifying Legislation Is of No Relevance on This Appeal.

Appellants Acron *et al.* make much of the fact (Op. Br. pp. 12-14) that on March 29, 1966, a bill was submitted to the Speaker of the House of Representatives which included a provision clarifying the status of the Insurance Corporation as an agency of the United States within the meaning of Section 451 of Title 28 U.S.C. Said appellants even attach a copy of the proposed bill as an appendix to their brief. Apart from the questionable propriety of alluding to matters outside the record and arising subsequent to the making of the order herein appealed from, their reference to this bill has no significance. The United States Supreme Court has explicitly held that attempts to seek clarifying legislation do *not* give rise to an inference that the construction of a statute contended for is not the correct con-

struction. *Wong Yang Sung v. McGrath* (1949), 339 U.S. 33, 47-48; *United States v. Turley* (1956), 352 U.S. 407, 415, Footnote 14.

It is respectfully urged that the order appealed from should be affirmed.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

JOHN WHYTE

No. 20724

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Kenneth G. Walker and Nancy M. Walker,

Appellants,

vs.

Federal Savings and Loan Insurance Corporation,

Appellee.

APPELLANTS' CLOSING BRIEF.

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IN THE

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KENNETH G. WALKER and NANCY M. WALKER,

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vs.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION,

Appellee.

APPELLANTS' CLOSING BRIEF.

PREFACE.

Appellee in their complaint [Clk. Tr. p. 2; p. 4, lines 9-29] claimed jurisdiction in the United States District Court on five (5) separate grounds. In Appellee's Brief the Federal Savings and Loan Insurance Corporation has abandoned all but one of the claimed grounds for jurisdiction and now relies solely upon an improper interpretation of 28 U.S.C. 1345. (App. Br. p. 2.)

It is interesting to note that in the last eighteen (18) years, since the enactment of 28 U.S.C. 1345 in 1948, no judicial or legislative utterance can be found which labels or designates Appellee as an "agency" of the United States; in fact, no such utterance can be found since the creation of Appellee thirty-two (32) years ago.

Not until the within cause has Appellee claimed United States District Court jurisdiction under the pro-

visions of 28 U.S.C. 1345; such claim is erroneous and the District Court has no jurisdiction as to the within proceedings.

I.
No Federal Question.

It is conceded by Appellee that no federal question is involved in this cause. If a federal issue were involved, jurisdiction in the District Court would be conceded under the provisions of 28 U.S.C. 1331, which provides, in part, as follows:

> "(a) The District Courts shall have original jurisdiction of all civil actions wherein the matter in controversy exceeds the sum or value of Ten Thousand ($10,000) Dollars, exclusive of interest and costs, and arises under the Constitution, laws, or treaties of the United States. . . ."

II.
Statutes Relating to Jurisdiction in the District Court Are Not to Be Liberally Construed.

Appellee urges this court to liberally construe 28 U.S.C. 1345 and 28 U.S.C. 451 in determining the issue of jurisdiction. (App. Br. p. 8.) In urging such contention, Appellee invites the court to error. A strict construction, not a broad or liberal construction, is required. Statutes relating to the jurisdiction of the United States Courts are to be strictly construed.

> ". . . It is well settled that statutes relating to the jurisdiction of the United States are to be strictly construed."

Federal Savings & Loan Insurance Corporation v. Third National Bank in Nashville, 60 F. Supp. 110;

Elgin v. Marshall, 106 U.S. 578, 1 S. Ct. 484, 27 L. Ed. 249;

Grace v. American Central Insurance Co., 109 U.S. 278, 3 S. Ct. 207, 27 L. Ed. 932;

Healy v. Ratta, 292 U.S. 263, 54 S. Ct. 700, 78 L. Ed. 1248.

Appellee urges, without authority, that it is "the manifest intent of Congress to open wide the Federal Courts to civil suits brought by any arm of the United States." (App. Br. p. 8.)

> "It must be kept in mind that, . . . the policy of the Supreme Court of the United States is to look with disfavor upon attempted restrictions on the legislative authority and policy of a state." (*Sacramento Municipal U. District v. Pacific Gas & Elec. Co.* (1942), 20 Cal. 2d 684, 128 P. 2d 529; citing *Palmer v. Com. of Massachusetts*, 308 U.S. 79, 60 S. Ct. 34, 84 L. Ed. 93; *Railroad Comm. v. Pullman Co.*, 312 U.S. 496, 61 S. Ct. 643, 85 L. Ed. 971.)

III.

The Fact That Appellee Has Succession Until Dissolved by Act of Congress Is Immaterial.

The fact that Appellee corporation continues to exist until dissolved by act of Congress is of no import. (App. Br. p. 4.)

Every corporation, whether created under state or federal law, continues to exist only until such time as the sovereign state or federal government decrees otherwise.

> "The legislature shall have power, by general laws and not otherwise, to provide for the formation, organization and regulation of corporations and to

prescribe their powers, rights, duties and liabilities and the powers, rights, duties and liabilities of their officers and stockholders or members. All laws now in force in this state concerning corporations and all laws that may be hereafter passed pursuant to this section may be altered from time to time *or repealed*." (*Constitution of the State of California, Article XII, Section 1.*) (Emphasis added.)

The reserved power of the states grants them authority to repeal the charter of corporations. (*In re College Hill Land Association of the City of San Diego*, 108 Pac. 681, 157 Cal. 596.)

Likewise, Congress has no less authority over any corporation it has created. It is elemental that Congress cannot bind itself or subsequent sessions of Congress. The retention of such power to repeal is not evidence or even a remote indication that Appellee is an agency of the United States as defined in 28 U.S.C. 451.

In short, what a sovereign has created, it can dissolve; no legislative act, whether creating or allowing corporations, or otherwise, can bind subsequent acts of the legislature.

The fact that the act creating Appellee (12 U.S.C. 1725) provides that the corporation shall have succession until dissolved by act of Congress, as so heavily relied upon by Appellee (App. Br. p. 4), is not of any import in determining whether or not Appellee is an "agency" within the purview of 28 U.S.C. 1345 and 28 U.S.C. 451.

In Paragraph IV, *infra*, over forty-five (45) corporations created by Act of Congress are listed; every one

of them have succession until dissolved by act of Congress, and not one is an "agency" of the United States under 28 U.S.C. 451 and 1345. (See Title 36, U.S.C.)

IV.

Limited Tax Exemptions, Required Financial Reports, and Governmental Functions.

The fact that Appellee has limited tax exemptions, must make financial reports and performs a government function is immaterial to the determination of the definition of "agency" as used in 28 U.S.C. 451 and 28 U.S.C. 1345.

Many corporations created by Act of Congress have been given certain tax exemptions, perform a government or patriotic function, and are required to make financial reports to Congress; yet, not one is an "agency" of the United States.

The Agricultural Hall of Fame, American Chemical Society, American Historical Association, The American Legion, The American National Theater and Academy, American Society of International Law, American Symphony Orchestra League, American War Mothers, AMVETS (American Veterans of World War II), Belleau Wood Memorial Association, Big Brothers of America, Blinded Veterans Association, Blue Star Mothers of America, Board for Fundamental Education, Boy Scouts of America, Boys' Clubs of America, Civil Air Patrol, Conference of State Societies, Washington, District of Columbia, The Congressional Medal of Honor Society of the United States of America, Daughters of the American Revolution, Disabled American Veterans, The Foundation of the Federal Bar Association, Future Farmers of America, Girl Scouts of America, Grand Army of the Republic,

Jewish War Veterans, U.S.A., National Memorial, Inc., Ladies of the Grand Army of the Republic, Legion of Valor of the United States of America, Incorporated, Marine Corps League, Military Chaplains Association of the United States of America, Military Order of the Purple Heart of the United States of America, National Academy of Sciences, National Conference on Citizenship, National Fund for Medical Education, National Music Council, National Woman's Relief Corps, Auxiliary to the Grand Army of the Republic, The National Yeomen F, Naval Sea Cadet Corps, Navy Club of the United States of America, Reserve Officers Association, Sons of the American Revolution, Sons of Union Veterans of the Civil War, United Spanish War Veterans, United States Blind Veterans of World War I, United States Olympic Association, Veterans of Foreign Wars of the United States, Veterans of World War I of the United States of America, **are all corporations created under and by an Act of Congress; all have been given certain tax exemptions by Act of Congress; all must make financial reports to Congress; all perform a government or patriotic function or aid in a government function and not one can be said to be an "agency" of the United States under 28 U.S.C. 451 or 28 U.S.C. 1345. (See 36 U.S.C. 1101, 1102, and 1103.)**

> "For example, the American Red Cross, the United Service Organizations, the National Banks, and several other institutions are *'instrumentalities'* of the government. . . . No one has ever contended that they hold a position 'under the United States Government' under the Act." (*Gradell v. United States*, cited *supra*, at p. 964) (emphasis added).

The word "instrumentality" is absent from the provisions of 28 U.S.C. 1345 and 28 U.S.C. 451 and its absence has a specific meaning and effect. Appellee desires this Court to "insert" the word "instrumentality" into 28 U.S.C. 451 and 28 U.S.C. 1345, an act that can only be done, and has not been done, by Congress.

The fact that an "instrumentality" may perform a government function does not make it an "agency" under 28 U.S.C. 1345.

"Instrumentalities" may be "Federal Agencies" within the broad definition of "Federal Agency" under the Tort Claims Act, and other Acts of Congress, but this does not make an "instrumentality" an "agency" under the definition of "agency" for jurisdictional purposes as contained in 28 U.S.C. 451 and 28 U.S.C. 1345.

The American Red Cross, American Legion, and the United Service Organizations, (and the numerous corporations listed in Paragraph IV, *infra*) have been held to perform governmental functions (*i.e.,* an "arm of the United States"); though they perform governmental functions and are corporations created by an Act of Congress, and though they are instrumentalities, they are *not agencies* of the United States and have no access to the United States District Court under 28 U.S.C. 1345.

The Courts and Congress have consistently made a distinction between an *"instrumentality"* of the United States and an *"agency"* of the United States. Thus, the Army Exchange Service and the Air Force Exchange Service have been held to be "instrumentalities."

> "Although the Exchange is an 'instrumentality' of the United States, it has no power to bind the United States by contract, and the government is

> not liable under contracts of the Exchange with third parties. *Pulaski Cab Co. v. The United States,* 157 F. Supp. 955, 141 Ct. Cl. 160."

(*Gradall v. United States,* 329 F. 2d 960 (1963), at page 964.)

> "It could hardly be thought that the United States is responsible for liabilities of the United Service Organizations or the Red Cross, *however essential may be their contribution to the performance of governmental functions. Because the operation of post exchanges is 'deemed essential' for governmental operation,* it does not follow that the government is any more liable for their contracts than they would be for a privately staffed agency that performed under contract the same functions." (Emphasis added.)

(*Pulaski Cab Co. v. United States,* 157 F. Supp. 958, 141 Ct. Cl. 165.)

V.
Use of the Mail.

Appellee does not have free use of the mails and must pay for such use. The fact that payment is made directly to the Post Office Department in lieu of buying "stamps" does not create an inference that Appellee corporation is an "agency" for jurisdictional purposes as defined in 28 U.S.C. 451, (39 U.S.C. 4156).

VI.
12 U.S.C. 1437b.

Appellee apparently concedes that prior to the enactment of 12 U.S.C. 1437(b) in 1955 that it was not an "agency" of the United States within the purview of 28 U.S.C. 1345.

In referring to 12 U.S.C. 1437(b) Appellee state at page 11 of Appellee's Brief as follows:

> "The fact remains however, that under the first sentence of this section, Congress has made the Insurance Corporation an independent agency in the executive branch of the government; wherefor, the corporation falls within the ambit of 28 U.S.C. 451, and thus is entitled to the benefit of 28 U.S.C 1345." (App. Br. p. 11.)

Appellee concedes that the enactment of 12 U.S.C. 1437(b), on August 11, 1955, did not constitute a grant of jurisdiction to sue in the Federal Court. (App. Br. p. 11.) However, Appellee takes the position that under the first sentence of 12 U.S.C. 1437(b) Congress made it an agency within the purview of 28 U.S.C. 451 (defining "agency" as used in 28 U.S.C. 1345); what Appellee was prior to August 11, 1955, is not revealed.

A reading of 12 U.S.C. 1437(b) reflects that it was not the intention of Congress to extend or grant jurisdiction by virtue of its enactment; specifically the section states that Appellee corporation shall have no greater rights than it had prior to August 11, 1955, or prior to June 24, 1954.

12 U.S.C. 1437(b) does not constitute Appellee an agency of the United States under 28 U.S.C. 451 and 28 U.S.C. 1345, and relates only to the internal functions of the Federal Home Loan Bank Board.

VII.

31 U.S.C. 841 and 846.

Appellee feels that referral to it as a "wholly owned government corporation" in 31 U.S.C. 846 makes it an agency of the United States under 28 U.S.C. 1345 and 28 U.S.C. 451. (App. Br. p. 14.)

This issue is discussed at pages 7, 8 and 9 of Appellant's Opening Brief. To emphasize, the purpose of 31 U.S.C. 841 and 846 is to bring government corporations and their transactions and operations under annual scrutiny by the Congress. The use of the phrase "wholly owned government corporation" is expressly limited to Title 31, U.S.C. 846. 31 U.S.C. 846 in defining the term limits it to "As used in this chapter. . . ." It was called to the attention of the Court that in the listing of various corporations under 31 U.S.C. 846 that the Federal National Mortgage Association is included as a "wholly owned government corporation" whereas it obviously is not as over one million shares of its common stock is publicly traded and owned by private individuals. The issue raised by Appellee relating to 31 U.S.C. 841 and 846 is more fully discussed in Appellant's Opening Brief, Paragraph VI and will not be here repeated.

VIII.

Appellee Has No Sovereign Character.

Black's Law Dictionary, Third Edition, defines "sovereign" and "sovereignty" as follows:

> "SOVEREIGN: A person, body, or state in which independent and supreme authority is vested . . .".
>
> "SOVEREIGNTY: The supreme, absolute, and uncontrollable power by which any independent state is governed; . . .".

Appellee does not even remotely partake or have any of the characteristics of a sovereign entity.

IX.

The Federal Deposit Insurance Corporation.

A comparison between Appellee herein and the Federal Deposit Insurance Corporation is made in Paragraph VII, pages 15, 16 and 17 of Appellant's Opening Brief and will not be here repeated. However, it is to be noted that the statute creating the Federal Deposit Insurance Corporation, 12 U.S.C. 1819, specifically provides that any suit of a civil nature involving the Federal Deposit Insurance Corporation shall be "deemed to arise under the laws of the United States" and Federal District Court jurisdiction is automatically provided for in the act itself under the provisions of 28 U.S.C. 1331, allowing original jurisdiction in the District Courts in matters arising under the Constitution, laws or treaties of the United States.

X.

Repurchase of Shares of Stock.

Appellees take the position that a corporation which issues shares of stock and then repurchases it is logically the same as a corporation which has never issued stock.

> Share repurchases "always reduce the net assets. . . ." (*Ballantine on Corporations*, Revised Edition, p. 605.)

It should be remembered that prior to the completion of the purchase of its own shares of stock by Appellee from the United States Treasury, completed in 1958, that at least from the time that the stock was transferred to the United States Treasury to the time it was fully purchased the Appellee was solely owned by the United States and the prohibition of 28 U.S.C. 1349, requiring more than 50 percent ownership by the United

States, would not have applied. However, when such stock was fully purchased from the treasury the United States no longer had any ownership interest therein and Appellee corporation was subject to the prohibitions of 28 U.S.C. 1349.

XI.

Agency, Government Agency, Federal Agency, Instrumentality.

Congress has been most explicit and definite in its use of the word "agency" and in almost every Title and Chapter (if not all) where the word "agency" is used, Congress has expressly defined such word specifically setting forth its meaning as used in the specific Chapter or Title.

Examples of the express act and intent of Congress to define the word "agency" with particularity as the word is used in each Title and Chapter will be set forth.

Pertaining to powers of the Executive Department:

> "*When used in sections 133z-133z-15 of this title,* the term 'agency' means any executive department, commission, counsel, independent establishment, government corporation, board, bureau, division, service, office, officer, authority, administration, or other establishment, in the executive branch of the government and means also any and all parts of the municipal government of the District of Columbia except the Courts thereof. Such term does not include the Controller General of the United States or the General Accounting Office, which are a part of the legislative branch of government." (Emphasis added.)
>
> (5 U.S.C. 133z-5.)

Pertaining to Administrative Procedure:

"As used in this chapter —

(a) 'Agency' means each authority (whether or not within or subject to review by another agency) of the government of the United States other than Congress, the Courts, or the governments of the possessions, territories, or the District of Columbia. Nothing in this chapter shall be construed to repeal delegations of authority as provided by law. Except as to the requirements of section 1002 of this title, there shall be excluded from the operation of this chapter (1) agencies composed of representatives of the parties or of representatives of organizations of the parties to the disputes determined by them, (2) court marshal and military commissions, (3) military or naval authority exercised in the field in time of war or in occupied territory, or (4) functions which by law expire on the termination of present hostilities, within any fixed period thereafter, or before July 1, 1947, and the functions conferred by sections 301-303, . . .".

(5 U.S.C. 1001.)

Pertaining to Review of Orders:

"As used in the chapter— . . .

(d) When the order sought to be reviewed was entered by the Federal Communications Commission, 'agency' means the commission; when such order was entered by the Secretary of Agriculture, 'agency' means the Secretary; when such order was entered by the United States Maritime Commission, or the Federal Maritime Board, or the Maritime Administration, 'agency' means that commis-

sion or board, or administration, as the case may require; when such order was entered by the Atomic Energy Commission, 'agency' means that commission."

(5 U.S.C. 1032.)

Pertaining to general criminal provisions:

"As used in this title: . . .

The term 'agency' includes any department, independent establishment, commission, administration, authority, board or bureau of the United States or any corporation which the United States has a proprietary interest, unless the context shows that such term was intended to be used in a more limited sense."

(18 U.S.C. 6.)

Pertaining to arms control a distinction is made, as is often made by Congress, between "Government Agency" and "Agency":

"As used in this chapter—(b) the term 'government agency' means any executive department, commission, agency, independent establishment, *corporation wholly or partly owned by the United States which is an instrumentality of the United States,* or any board, bureau, division, service, office, officer, authority, administration, or other establishment in the executive branch of the government.

(c) The term 'agency' means the United States Arms Control and Disarmament Agency." (22 U.S.C. 2552) (emphasis added).

Pertaining to appropriations:

". . . When used in this section, the term 'agency' means any executive department, agency, commission, authority, administration, board, or other independent establishment in the executive branch of the government, *including any corporation wholly or partly owned by the United States which is an instrumentality of the United States.* . . . The provision of this section shall not apply to any corporation which obtains funds for making loans, other than paid in capital funds, without legal liability on the part of United States." (emphasis added). (31 U.S.C. 665).

Pertaining to public buildings and works:

"As used in sections 304(g)-304(m) of this title —. . . (2) 'agency' includes any executive department, independent establishment, board, commission, bureau, service, or division of the United States, and *any corporation in which the United States owns all or a majority of the stock.*" (Emphasis added). (40 U.S.C. 304(f)).

Pertaining to public printing:

". . . The terms 'federal agency' or 'agency' mean the President of the United States, or any executive department, independent board, establishment, bureau, agency, institution, commission, or separate office of the administrative branch of the government of the United States but not the legislative or judicial branches of the government; . . ." (44 U.S.C. 304).

Pertaining to national security:

"When used in sections 403(b)-403(j) of this title, the term—(a) 'agency' means the Central Intelligence Agency, . . ." (50 U.S.C. 403(a)).

Pertaining to war and defense contracts:

". . . The term 'agency of the government' means any part of the executive branch of the government or any independent establishment of the government or part thereof, including any department (whether or not a department as defined in subsection (a) of this section), *any corporation wholly or partly owned by the United States which is an instrumentality of the United States,* or any board, bureau, division, service, office, officer, employee, authority, administration, or other establishment of the government which is not a part of the legislative or judicial branches." (emphasis added). (50 App. U.S.C. 1213(1)).

Pertaining to quarters and facilities for government personnel:

"For the purpose of this chapter— . . .

(2) 'Agency' means—

(A) Each executive department of the government;

(B) Each agency or independent establishment in the executive branch of the government;

(C) Each corporation owned or controlled by the Government, except the Tennessee Valley Authority; and,

(D) The General Accounting Office. . . ."

(5 U.S.C. 3121).

Pertaining to the trade expansion program:

"For the purpose of this chapter—

(1) The term 'agency' includes any agency, department, board, wholly or partly owned corporation, *instrumentality,* commission, or establishment of the United States." (Emphasis added.) (19 U.S.C. 1806).

Pertaining to money and finance and settlement of certain claims:

"As used in Sections 240-242 of this title—

(1) 'Agency' includes an executive department, independent establishment, or corporation primarily acting as an *instrumentality* of the United States, but does not include any contractor with the United States. . . ." (Emphasis added). (31 U.S.C. 240).

Pertaining to navigation and navigable waters:

"(a) When used in this section—

(1) The term 'Agency' means the corps of engineers, United States Army, or the Bureau of Reclamation, United States Department of the Interior, whichever has jurisdiction over the project concerned. . . ." (33 U.S.C. 701(r).

Pertaining to legislation on bridges on federal dams:

"(a) Each executive department, independent establishment, office, board, bureau, commission, authority, administration, corporation wholly owned or controlled by the United States, or other agency of the Government of the United States, hereinafter collectively and individually referred to as 'agency', . . ." (23 U.S.C. 320).

Pertaining to atomic energy:

"The intent of Congress in the definitions as given in this Section should be construed in the words or phrases used in the definitions. As used in this chapter:

(a) The term 'agency of the United States' means the executive branch of the United States, or any Government agency, or the legislative branch of the United States, or any agency, committee, commission, office, or other establishment in the legislative branch, or the judicial branch of the United States, or any office, agency, committee, commission, or other establishment in the judicial branch. . . ." (42 U.S.C. 2014).

In defining *"Government agency"* with relation to the executive department:

"As used in Sections 3031-3038 of this title, and Section 522 of Title V, the term— . . .

(2) 'Government Agency' means

(a) Each Executive Department of the Government,

(b) Each independent establishment or agency in the executive branch of the Government, including each corporation wholly owned (either directly or through one or more corporations) by the Government,

(c) The general accounting office, and

(d) The liberary of Congress; . . ."

(5 U.S.C. 3032).

In dealing with foregin relations:

"When used in Sections 280-280c of this Title— . . . (2) The term 'Government Agency' means

any department, independent establishment, or other agency of the Government of the United States, or any corporation wholly owned by the Government of the United States; . . ." (22 U.S.C. 280a).

With relation to the Foreign Service:

"When used in this chapter the term— . . . (4) 'Government Agency' means any executive department, board, bureau, commission, or other agency in the executive branch of the Federal Government, or any corporation wholly owned (either directly or through one or more corporations) by the United States; . . ." (22 U.S.C. 802).

Again, in dealing with foreign relations and the Information Service:

"When used in this chapter, the term— . . . (3) 'Government Agency' means any executive department, board, bureau, commission, or other agency of the Federal Government, or independent establishment, or any corporation wholly owned (either directly or through one or more corporations) by the United States." (22 U.S.C. 1433).

In dealing with Arms Control and Disarmament:

"As used in this chapter— . . . (b) the term 'Government Agency' means any executive department, commission, agency, independent establishment, *corporation wholly or partly owned by the United States which is an instrumentality of the United States,* or any board, bureau, division, service, office, officer, authority, administration, or other establishment in the executive branch of the Government." (Emphasis added). (22 U.S.C. 2552).

In dealing with reimbursements to the Treasury:

"(c) As used in this Section—

(1) The term 'Government Agency' shall include any department, office, agency, or establishment of the Government other than the department of the Treasury, and any wholly owned or mixed ownership Government corporation; . . ." (31 U.S.C. 157).

In dealing with public buildings and property:

"When used in this chapter— . . .

(b) 'Government Agency' and 'Government agencies' mean the Government of the United States, District of Columbia, Commonwealth of Virginia, State of Maryland, or any political subdivision, agency or *instrumentality* thereof, which is located within, or whose jurisdiction includes all or part of, the National Capitol Region; the term includes, but is not limited to, public authorities, towns, villages, cities, other municipalities, and counties." (Emphasis added). (40 U.S.C. 652).

In dealing with war contracts:

"As used in this chapter— . . .

(f) The term 'Government Agency' means any executive department of the Government, or any administrative unit or subdivision thereof, any independent agency or any corporation owned or controlled by the United States in the executive branch of the Government, and includes any contracting agency. . . ." (41 U.S.C. 103).

In dealing with atomic energy:

"The intent of Congress in the definitions as given in this Section should be construed from the words or phrases used in the definitions. As used in this Chapter:

(k) The term 'Government agency' means any executive department, commission, independent establishment, corporation, wholly or partly owned by the United States of America, *which is an instrumentality of the United States,* or any board, bureau, division, service, office, officer, authority, administration, or other establishment in the executive branch of the Government." (Emphasis added.) (42 U.S.C. 2014).

In dealing with war and national defense:

"When used in Section 403b-403j of this title, the term— . . .

(c) 'Government Agency' means any executive department, commission, counsel, independent establishment, corporation wholly or partly owned by the United States, which is an *instrumentality* of the United States, board, bureau, division, service, officer, authority, administration, or other establishment, in the executive branch of the Government." (Emphasis added). (50 U.S.C. 403a).

In dealing with the universal military training:

"(g)(1) As used in this section—. . . .

(B) The term 'Government Agency' means any department, agency, independent establishment, or corporation in the executive branch of the United States Government. . . ." (50 App. U.S.C. 468).

With relation to the definition of *"federal agency or instrumentality":*

In dealing with the executive departments:

"(f) For the purposes of this section— . . . (2) The term 'Federal Agency' includes any executive department, independent establishment, or other agency of the United States (except a member

bank of the Federal Reserve System)." (5 U.S.C. 118k).

Again, in dealing with executive departments:

"As used in Sections 139-139f of this title—. . . . (a) The term 'federal agency' means any executive department, commission, independent establishment, corporation owned or controlled by the United States, board, bureau, division, service, office, authority or administration, in the executive branch of the Government; but such terms shall not include the general accounting office nor the Governments of the District of Columbia and of the territories and possessions of the United States, and the various subdivisions of such Governments. . . ." (5 U.S.C. 139e).

Again, with relation to the executive department:

"As used in this chapter—. . . .
(2) 'Federal Agency' means any department or agency in the executive branch of the United States Government including independent establishments and Government owned or controlled corporations, and any employing authority in the legislative branch of the United States Government." (5 U.S.C. 2331).

Again, as used in the executive department:

". . . Section 1. As used in this order:
. . . (b) The term 'Federal Agency' means any executive department of the Government of the United States of America, any agency or independan establishment in the executive branch of the Government, and any corporation wholly owned or controlled by the Government. . . ." (*Executive*

Order No. 10982, January 2, 1962, 27 F.R. 3, 5 U.S.C. 3076).

In dealing with narcotics:

"(b) As used in this section, the term 'federal agencies' shall include: (1) The executive departments; (2) The departments of the Army, Navy and the Air Force; (3) The independent establishments and agencies in the executive branch, including corporations wholly owned by the United States, and (4) The municipal Government of the District of Columbia. . . ." (21 U.S.C. 198.)

In dealing with tort claims procedure:

"As used in this chapter and Sections 1346(b) and 2401(b) of this Title, the term — 'Federal Agency' includes the executive departments and independent establishments of the United States, and corporations primarily acting as, *instrumentalities* or agencies of the United States, but does not include any contractor with the United States." (Emphasis added.)

(28 U.S.C. 2671.)

It is noted that the definition of "*Federal Agency*" under tort claims procedure is much broader than the definition of "agency" in 28 U.S.C. 451. The Tort Claims Procedure Act specifically uses the word "instrumentality" and makes a distinction between an "instrumentality" and an "agency" of the United States. The definition specifically covers corporations acting as instrumentalities of the United States as well as corporations acting as agencies of the United States and recognizes the distinction between the two by separately defining them. (28 U.S.C. 2671.)

In dealing with public buildings, property and works:

"The term 'federal agency' is used in Sections 304a-304c of this title, means any executive department, independent establishment, commission, board, bureau, division, or office in the executive branch, or other agency of the United States, including corporations wholly owned by the United States."

(40 U.S.C. 304e.)

With relation to general provisions pertaining to government property:

"As used in this chapter, Chapter 11 of Title 5, Chapter 4 of Title 41, and Chapter 11 of Title 44—

(a) The term 'executive agency' means any executive department or independent establishment in the executive branch of the Government, including any wholly owned Government corporation.

(b) The term 'federal agency' means any executive agency or any establishment in the legislative or judicial branch of the Government (except the Senate, the House of Representatives, and the Architect of the Capitol and any activities under his direction). . . ."

(40 U.S.C. 472.)

Again, in dealing with public buildings and property:

"As used in this chapter — . . .

(3) The term 'federal agency' means any executive agency or any establishment in the legislative or judicial branch of the Government (except the Senate, the House of Representatives, and the Architect of the Capitol and any activities under his direction)

(4) The term 'executive agency' means any executive department or independent establishment in the Executive Branch of the Government including any wholly owned Government corporation and including (a) the Central Bank for Cooperatives and the Regional Banks for Cooperatives, (b) Federal Land Banks, (c) Federal Intermediate Credit Banks, (d) Federal Home Loan Banks, (e) Federal Deposit Insurance Corporation, and (f) the Federal National Mortgage Association. . . ."

(40 U.S.C. 612.)

In dealing with public health and welfare and defense housing:

"As used in subchapters II-VII of this Chapter, . . . (b) The term 'federal agency' means any executive department or office (including the President), independent establishment, commission, board, bureau, division, or office in the executive branch of the United States Government, or other agency of the United States, including corporations in which the United States owns all or a majority of the stock, directly or indirectly."

(42 U.S.C. 1522.)

Again, in dealing with public health and welfare and defense housing:

"As used in this subchapter, the following terms shall have the meanings respectively ascribed to them below, and, unless the context clearly indicates otherwise, shall include the plural as well as the singular number: . . .

(b) 'Federal Agency' shall mean any executive department or officer (including the President), in-

dependent establishment, commission, board, bureau, division, or office in the executive branch of the United States Government, or other agency of the United States, including corporations, in which the United States owns all or a majority of the stock, directly or indirectly. . . ."

(42 U.S.C. 1592(n).)

In dealing with damages by flood:

"As used in this chapter, the following terms shall be construed as follows unless a contrary intent appears from the context: . . .

(f) 'Federal Agency' means any department, independent establishment, Government corporation, or other agency of the executive branch of the federal government, excepting, however, the American National Red Cross."

(42 U.S.C. 855a.)

In dealing with atomic energy:

"The intent of Congress in the definitions as given in this section should be construed from the words or phrases used in the definitions.

As used in this chapter:

(a) The term 'Agency of the United States' means the executive branch of the United States, or any Government agency, or the legislative branch of the United States, or any agency, committee, commission, office or other establishment in the legislative branch, or the judicial branch of the United States, or any office, agency, committee, commission or other establishment in the judicial branch.

. . .

(k) The term 'Government Agency' means any executive department, commission, independent establishment, corporation, wholly or partially owned by the United States of America, *which is an instrumentality of the United States,* or any board, bureau, division, service, officer, office, authority, administration, or other establishment in the executive branch of the Government. . . ." (Emphasis added.)

(42 U.S.C. 2014.)

It is noted that in the quoted definitions that the word "instrumentality" **(absent from 28 U.S.C. 451 and 28 U.S.C. 1345)** does appears in 42 U.S.C. 2014, 28 U.S.C. 2671, 50 U.S.C. 403a, 40 U.S.C. 652, 31 U.S.C. 240, 19 U.S.C. 1806, 50 App. U.S.C. 1213-(1), 31 U.S.C. 665, and 22 U.S.C. 2552.

It is also to be noted that 42 U.S.C. 2014, 28 U.S.C. 2671, 50 U.S.C. 403a, 22 U.S.C. 2552, 19 U.S.C. 1806, 50 App. U.S.C. 1213(1), 31 U.S.C. 665, and 22 U.S.C. 2552, make a distinction between the meaning of the words "agency", "instrumentality," "independent establishment" and "corporations wholly or partially owned by the United States."

There is a distinction with a difference in the meaning of the words used by Congress. The fact that an "instrumentality" such as Appellee (specifically designated such in 12 U.S.C. 1725) is not designated or included in 28 U.S.C. 451 or 28 U.S.C. 1345 means just what it says. In the absence of a federal question, Appellee cannot justifiably claim jurisdiction in the United States District Court.

If more clarification is needed as to a Congressionally recognized distinction between the words, it is found in 31 U.S.C. 869, which provides in part as follows:

> "(a) No corporation shall be created, organized, or acquired on or after December 6, 1945, by any officer or agency of the federal government or by any government corporation for the purpose of acting as an *agency or instrumentality* of the United States, except by act of Congress or pursuant to an act of Congress, specifically authorizing such action.
>
> (b) No wholly owned government corporation created by or under the laws of any state, territory, or possession of the United States, or any political subdivision thereof, or under the laws of the District of Columbia, shall continue after June 13, 1948, as an *agency or instrumentality* of the United States, and no funds of, or obtained from, the United States or *any agency thereof, including corporations,* shall be invested in or employed . . .". (Emphasis added.)

XII.

Real Property Foreclosure—Application of State Law.

There is no separate or distinct federal law relating to foreclosure actions. Appellee is not in the position of choosing which State Law it wishes to be bound by and which it chooses to ignore.

Article VI, Section 5 of the Constitution of the State of California requires that the within cause be brought in the Superior Court of the State of California in the

County of Orange. (Discussed in detail in App. Op. Br. pp. 11-14.)

In "*Government Proprietary Corporations In The English-Speaking Countries*" (1937), by John Thurston, Department of Political Science, Published under the Direction of the Department of Government in Harvard University (*hereinafter sometimes referred to as GPC*), the word "proprietary" is used to designate corporations engaged in commercial or businesss enterprises as distinguished from purely Governmental corporations not engaged in business. (At p. 11.) This distinction is mentioned because the use of the word "proprietary" in the aforementioned book is not the same use as referred to in 28 U.S.C. 451.

Appellee corporation is in the same standing as any other commercial corporation would be in this cause.

The Appellee corporation in this case is strictly commercial in character.

> "To determine whether an enterprise is governmental or commercial, we should look to the method by which it is financed. If the activity is supported by taxation, that is prima facie evidence that it is governmental in character. If, however, the enterprise is self-supporting and derives its revenue from money received through the sale of its products or services, it is prima facie commercial. A common feature of private commercial concerns is that they finance themselves through the sale of their product; most of the traditional governmental activities, on the other hand, are supported by taxation, being activities from which the community as a whole, rather than certain customers, derives benefit and for which it is difficult to de-

termine the share of cost which particular persons should pay, or which, for reasons of public policy, it is thought should be subsidized through levies upon those able to pay. But where the cost for a good or service can be determined and particular persons are the purchasers, the cost of production, including taxation equal to the fair share of the enterprise in the expense of governmental functions, should be charged to the purchaser." (GPC, cited *supra*, p. 74.)

> "We have already seen that for purposes of suit a government proprietary corporation is considered a separate legal entity, so that a suit against it is not a suit against the Government." (Government Proprietary Corporation in the English-Speaking Countries, cited *supra*, p. 86.)

Government corporations such as Appellee herein, engaged in commercial enterprises, may not claim the priority in bankruptcy proceedings to which the United States is entitled.

> "The Reconstruction Finance Corporation act creates a corporation and vests it with designated powers. Its entire stock is subscribed by the Government, but it is nonethelsss a corporation, limited by its charter, and by the general law. The act does not give it greater rights as to the enforcement of its outstanding credits than are enjoyed by other persons or corporations in the event of proceedings under the Bankruptcy Act." (*Continental Illinois N.B. & T. v. C.R.I. and P. Railway Co.*, 294 U.S. 648, 684 (1935)).

It is the policy of Congress in creating corporations which will be engaged in commercial enterprises to put them on the same footing and on a competitive status with other business type corporations.

> ". . . It would seem to be a generally sound legal principal to hold that such national proprietary corporations are subject to all the laws of the state in which they are operating, *except insofar as the state laws conflict with the functions assigned by the United States to such an extent as to impair the ability of the corporations to perform these functions,* and except insofar as Congress has by its enactments overriden state legislation. The paramount authority of Congress to control its national corporations must be admitted, and generally it would seem desirable for Congress to prescribe as far as possible the rules governing its corporations rather than to leave the matters to their varying laws of the 48 states. *But where Congress has not acted, the state laws should generally be held to apply,* and in view of the commercial nature of the corporations and their separate legal personality, the plea that they are instrumentalities of the national Government ought not to be too readily listened to. *Indeed, in commercial enterprises of this sort, so many questions arise on which the laws of the United States are silent and the laws of the states alone provide a guide that it is hardly practicable to refuse to recognize state legislation.*" (*Government Proprietary Corporations in the English-Speaking Countries*, cited *supra*, pp. 96-97 (Emphasis added.)

In *Shooters Island Shipyard Company v. Standard Ship Building Corporation,* 293 Fed. 706 (C.C.A. 1923), the situation involved priority of mortgages and turned on the question of whether a New Jersey law governing the execution and recording of Chattel Mortgages applied. The Court there stated that the instrumentality "does not stand in the place of the Government so as to share the immunities of the sovereign, but in its transactions as a distinct entity, it was bound to observe the law of the state in which it was doing business.

In the case of *Gielow v. Eastern Shore Ship Building Corporation,* 265 Fed. 845 (D.C. 1919), a similar situation was involved. By the terms of its contract with a firm later bankrupt, the Emergency Fleet Corporation would have gained title to certain materials, whereas by a law of Maryland, title would not be in the Fleet Corporation because the contract had not been recorded as required by state law. The Court held that, while Congress might provide that the provisions of a contract made by the Emergency Fleet Corporation should override a state law, *in the absence of such a provision* the Maryland law prevailed. Similarly, a motion to set aside the service of a summons upon the Emergency Fleet Corporation was granted on the ground that the requirements of a Florida statute had not been complied with. (*Hutchinson v. U.S.S. B. Emergency Fleet Corporation,* 13 F. 2d 954 (D.C. 1926).

As a conclusion, the author of "*Government Proprietary Corporations in the English-Speaking Countries,*" cited *supra,* states at page 103;

> "We may conclude with a paradox: In the law of Government proprietary corporations, the public interest is best served by regarding them as private."
>
> "It is desirable, in order that the corporation may be held entirely responsible and that judgments against it may be promptly executed, that the ownership of the property should be vested in the corporation. *Here, as in other respects, the corporation should be treated as if it were a private corporation and given no unfair advantages.*
>
> *Federal Land Bank vs. Priddy,* 295 U.S. 229 (1935), held that a federal land bank is subject to attachment of its property pursuant to state law, in connection with a claim against the bank. Federal land banks are instrumentalities of the Federal Government, and the question of whether they are subject to attachment is dependent upon the intention of Congress. The act creating the banks, since it gave them power to sue and be sued as fully as natural persons shows that Congress intended they should be subject to attachment. Moreover, it does not appear that the attachment would interfere with any judicial function performed by the banks or federal instrumentalities." (G.P.C., cited *supra*, p. 55; emphasis added.)

With relation to Appellee herein, it is obvious that none of its assets are assets of the United States. In the case of *Curran v. Arkansas*, 15 How. 304 (U.S.

1853), the state had taken over for its own use the property and capital fund of the State Bank of Arkansas upon the bank becoming insolvent. The State had held all the stock in the bank. The plaintiff held bills of the bank and brought suit to recover and his recovery was upheld. The Court held that his right followed the assets of the bank and since the Supreme Court of Arkansas had decided that the State could be sued, the right could be enforced. Upon the banks becoming insolvent, its capital belonged to the creditors and not to the state; for the state to seize the capital was an impairment of the obligation of contract. See also *United States Sugar Equalization Board, Inc. v. P. De Rond & Co., Inc.*, 7 F. 2d 981 (C.C.A. 1925), where it was held that the Board could be enjoined from winding up its affairs and paying its funds over to the United States until it had paid a valid claim against it.

Appellee correctly states the law in quoting from *Chicago and N.W. Railway Co. v. Whitton* (1871), 80 U.S. 27, 286, as follows:

> "In all cases, **where a general right is thus conferred,** it can be enforced in any Federal court within the State having jurisdiction of the parties. . . ." (Emphasis added; App. Br. p. 28.)

But, such citation "begs the question" now before the court and assumes the very fact in issue.

Nowhere is there a *general right* conferred upon Appellee; *nowhere* is there a federal law contrary to, overriding or inconsistent with, Article VI, Section 5 of the Constitution of the State of California; *nowhere* is it shown that the application of the State Constitution or statutory law would impair the functions of Appellee;

nowhere has it been shown that Congress by its enactments has overridden state legislation.

Wherefore, it is respectfully prayed of the Honorable Court that the order made by the District Court on January 14, 1966, denying the motion of defendants and appellants to dismiss for lack of jurisdiction be reversed and that this cause be dismissed as to Appellants Kenneth G. Walker and Nancy M. Walker.

Respectfully submitted,

BAUM & ARAN,

By LEONARD P. BAUM,

Attorneys for Defendants and Appellants Kenneth G. Walker and Nancy M. Walker.

Certificate of Counsel.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals of the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those Rules.

Leonard P. Baum

No. 20724

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ACRON INVESTMENTS, INC., VELTURON CORPORATION, METRIM CORPORATION, FULLERTON COUNTRY CLUB, C. S. JONES, EDITH B. JONES, LOS COYOTES COUNTRY CLUB, BELLEHURST COUNTRY CLUB, KENNETH G. WALKER and NANCY M. WALKER,

Appellants,

vs.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION,

Appellee.

Appeal From the District Court for the Southern District of California, Central Division.

Reply Brief of Appellants. Acron Investments, Inc., Velturon Corporation, Metrim Corporation, Fullerton Country Club, C. S. Jones, Edith B. Jones, Los Coyotes Country Club and Bellehurst Country Club.

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TOPICAL INDEX

TABLE OF AUTHORITIES CITED

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1. The Federal Savings and Loan Insurance Corporation Is Not in "Independent Establishment."

28 USCA 451, which defines the agencies of government, within the meaning of 28 USCA 1345, provides:

> "The term 'agency' includes any department, independent establishment, commission, administration, authority, board or bureau of the United

> States or any corporation in which the United States has a proprietary interest, unless the context shows that such term was intended to be used in a more limited sense."

Appellee Federal Savings and Loan Insurance Corporation (sometimes hereinafter "The Corporation") says that since the various types of agencies are described in the disjunctive, a government entity or instrumentality can qualify as an agency for jurisdictional purposes if it fits within any one of the definitions listed. The fact that it is a corporation and the government does not have a proprietary interest, as required by §451, is immaterial if it fits one of the other definitions. (App. Br. 6-10.) The Corporation then argues that it does fit one of the other definitions because it is an "independent establishment". (App. Br. 10-11.)

We will assume, for the purpose of replying to this argument, that a corporate agency could, in a proper case, also be an "independent establishment" within the meaning of §451. However, this does not solve the problem in this case. The fact is that Federal Savings and Loan Insurance Corporation is not an independent establishment. The only authority cited by the Corporation for the proposition that it is an independent establishment is 12 USCA 1437(b), which provides:

> "The Home Loan Bank Board which was, pursuant to Reorganization Plan Numbered 3 of 1947, established and made a constituent agency of the Housing and Home Finance Agency shall, from August 11, 1955, cease to be such a constituent

agency and shall be an independent agency (including the Federal Savings and Loan Insurance Corporation) in the executive branch of the Government. . . ."

This statute does not say that the Federal Savings and Loan Insurance Corporation is an independent establishment. It says that the Federal Home Loan Bank Board is an independent agency and that the Federal Savings and Loan Insurance Corporation is included within that agency. It is the Federal Home Loan Bank Board which is independent, not the Insurance Corporation. The fact is that the Insurance Corporation has always been subject to the Home Loan Bank Board. The United States Government Organization Manual lists the Federal Home Loan Bank Board as an independent agency. The Federal Savings and Loan Insurance Corporation is not listed as an independent agency. It is a subdivision or part of the Federal Home Loan Bank Board. (United States Court. Org. Manual, 1965-1966 Ed. pp. 406-409.) A copy of the portion of the Organization Manual pertaining to the Federal Home Loan Bank Board and its subsidiary agencies, including the Federal Savings and Loan Insurance Corporation, is attached hereto as an Appendix. In addition, the Appendix of Manual gives the following history of the Federal Savings and Loan Insurance Corporation showing that it has always been controlled by the Federal Home Loan Bank Board and is not independent of it:

"Federal Savings and Loan Insurance Corporation.—Created by National Housing Act, approved June 27, 1934 (48 Stat. 1246; 12 U.S.C. 1724-1730), to insure safety of savings in thrift and home-financing institutions. Operated under a

board of trustees composed of the five members of Federal Home Loan Bank Board. Grouped with other agencies to form Federal Loan Agency by Reorg. Plan I, effective July 1, 1939. Transferred to Federal Home Loan Bank Administration under National Housing Agency by EO 9070 of Feb. 24, 1942. Board of Trustees abolished by Reorg. Plan 3 and functions transferred to Home Loan Bank Board (see Federal Home Loan Bank Board, test) under Housing and Home Finance Agency, effective July 27, 1947." (United States Government Organization Manual, 1965-66 Ed., Appendix, p. 660.)

The Federal Home Loan Bank Board could argue that it is an "independent establishment" of government, and it probably is. But the same cannot be said of the Federal Savings and Loan Insurance Corporation. The Corporation is subject to the direction and control of the Board. It is not independent in any sense of the word.

2. The Government Does Not Have a "Proprietary Interest" in the Federal Savings and Loan Insurance Corporation.

The Corporation has not replied to the authorities cited in our brief which hold that a proprietary interest in a corporation means ownership of stock in the corporation. (*Rotenberg v. Sheehan* (D.C.E.D. Mo. 1943), 48 F. Supp. 584, 586; *Select Theatres Corp. v. Johnson* (D.C.S.D.N.Y. 1956), 145 F. Supp. 583, 592.) Instead The Corporation claims, without citation of any authority, that since the government has control it has a proprietary interest. (App. Br. 11-16.) No one would

deny that the government (through the Federal Home Loan Bank Board) controls the Federal Savings and Loan Insurance Corporation. But to say that this is a proprietary interest says entirely too much. All corporations are controlled by the government to some extent. As one example, a corporation engaged in the pharmaceutical business is strictly regulated by the Food and Drug Administration. It is likely that even greater governmental control of business will be exercised in the future. An example of this is the automobile industry. It is almost a certainty that mandatory automobile safety legislation will be enacted within the immediate future. If control of a corporation is the test of the government's proprietary interest, then why stop with the Federal Savings and Loan Insurance Corporation? Every corporation is controlled by government. If control is to be the standard, then every corporation is an agency of government. The words "proprietary interest" cannot be given that broad a meaning. They should be given their usual and normal meaning. A proprietary interest is the interest of an owner. (Webster's 3rd New International Dictionary; Colbert v. Ricker (1943), 314 Mass. 138, 140 [49 N.E. 2d 459].) A proprietary interest in a corporation is ownership of stock of the corporation. (*Rotenberg v. Sheehan* (D.C. Ed. Mo. 1943), 48 F. Supp. 584, 586; *Select Theatres Corp. v. Johnson* (D.C. S.D.N.Y. 1956), 145 F. Supp. 583, 592.)

The Reviser's Notes do not require the broad interpretation of the statute advocated by the Federal Savings and Loan Insurance Corporation. The Notes say: "The phrase 'corporation in which the United States has a proprietary interest' is intended to include those

governmental corporations in which stock is not actually issued, as well as those in which stock is owned by the United States." The Federal Savings and Loan Insurance Corporation does not fit in either category. The United States does not own any of its stock, and it is not a corporation in which stock has not been actually issued. To the contrary, the Federal Savings and Loan Insurance Corporation is a corporation in which $100 million dollars worth of stock has actually been issued. (12 USCA 1725(b).)

There are government corporations in which stock has not and cannot be issued. For example, the Naval Sea Cadet Corps is a corporation created by Congress to cooperate with the Department of the Navy to interest American boys in seamanship. (36 USCA 1041, *et seq.*) The statute creating this corporation provides that it "shall have no power to issue any shares of stock or to declare or to pay dividends". The non-stock corporations referred to at page 16 of the Appellee's Brief are in the same category. The statutes creating the Federal Prison Industries, Incorporated, the Saint Lawrence Seaway Development Corporation and the Virgin Islands Corporation do not provide for issuance of stock, and presumably none has been issued. (18 USCA 4121, *et seq.*; 33 USCA 981, *et seq.*; 48 USCA 1407, *et seq.*) It may be that Congress (or the Reviser) had this type of government corporation in mind in saying that a proprietary interest in a corporation includes a government corporation in which no stock is actually issued. The fact remains that the Federal Savings and Loan Insurance Corporation is not such a corporation. The government does not have a proprietary interest in the Federal Savings and Loan

Insurance Corporation according to the usual and accepted definition of the word.

A further distinction between the Federal Savings and Loan Insurance Corporation and the non-stock corporations is that the government actually has a property interest in the non-stock companies. All money received by the Federal Prison Industries, Incorporated, must be deposited in the Treasury, and its expenses are paid by the Treasury. (18 USCA 4126.) The activities of the Saint Lawrence Seaway Corporation are financed by bonds purchased by the Treasury. (33 USCA 985.) All of the property of the Virgin Islands Corporation was acquired from the United States. (48 USCA 1407i.) By contrast, the Federal Savings and Loan Insurance Corporation is not operated with government funds. Originally it was in that the United States purchased its stock. However, that situation has long since changed. The Federal Savings and Loan Insurance Corporation derives its revenue from the insurance premiums paid by the savings and loan associations. The government's investment in the Insurance Corporation has been entirely paid off out of those funds.

3. 28 USCA 451 Does Contain a Complete List of Agencies Within the Meaning of Section 1345.

The Corporation argues that since §451 uses the word "include" in defining agencies, the list of agencies therein enumerated is not exclusive and does not preclude other governmental entities from being agencies for jurisdictional purposes. (App. Br. 16-21.) Admittedly the word "include" can be a term of enlargement as well as one of limitation. (*United States v. Gertz* (9th Cir. 1957), 249 F. 2d 662, 666.) But

the usual meaning is that of limitation. (*Montello Salt Co. v. Utah* (1911), 221 U.S. 452, 461-466 [31 Sup. Ct. 706, 55 L. Ed. 810]; *Blankenship v. Western Union* (4th Cir. 1947), 161 F. 2d 168, 169.) As the Supreme Court said in the *Montello Salt Co.* case:

> "The court also considered that the word 'including' was used as a word of enlargement, the learned court being of opinion that such was its ordinary sense. With this we cannot concur. It is its exceptional sense, as the dictionaries and cases indicate." (221 U.S. at 466.)

The word "include", as used in 28 USCA 451, must be interpreted as a word of limitation. The full text of §451 is as follows:

> "§451 Definitions
>
> As used in this title:
>
> The term 'court of the United States' includes the Supreme Court of the United States, courts of appeals, district courts constituted by chapter 5 of this title, including the district courts of the United States for the districts of Hawaii and Puerto Rico, the Court of Claims, the Court of Customs and Patent Appeals, the Customs Court and any court created by Act of Congress the judges of which are entitled to hold office during good behavior.
>
> "The terms 'district court' and 'district court of the United States' mean the courts constituted by chapter 5 of this title.
>
> "The term 'judge of the United States' includes judges of the courts of appeals, district courts, Court of Claims, Court of Customs and Patent Appeals, Customs Court and any court created by

Act of Congress, the judges of which are entitled to hold office during good behavior.

"The term 'justice of the United States' includes the Chief Justice of the United States and the associate justices of the Supreme Court.

"The term 'district' and 'judicial district' mean the districts enumerated in Chapter 5 of this title.

"The term 'department' means one of the executive departments enumerated in section 1 of Title 5, unless the context shows that such term was intended to describe the executive, legislative, or judicial branches of the government.

"The term 'agency' includes any department, independent establishment, commission, administration, authority, board or bureau of the United States or any corporation in which the United States has a proprietary interest, unless the context shows that such term was intended to be used in a more limited sense."

The word "include" is used in defining many terms in addition to agencies: "The germ 'court of the United States' includes . . ."; "The term 'judge of the United States' includes . . ."; "The term 'justice of the United States' includes . . .". Surely no one would argue that when Congress has said that "The term 'justice of the United States' includes the Chief Justice of the United States and the associate justices of the Supreme Court," that it meant to say that those were not the only "justices of the United States" and that any other judge of a United States court could be deemed a "justice of the United States". Such an interpretation would be absurd when the immediately preceding paragraph defines the judges of the other United States

courts as "judges of the United States". The word "include" is clearly and unmistakably intended to mean that it is a word of limitation listing and defining all of the positions which are "justices of the United States" and all of the positions which are "judges of the United States". The same word "include" is used in defining "agency". Being a part of the same statute, it must be given the same interpretation. It is a word of limitation listing and defining all of the types of government entities which may be considered an agency for jurisdictional purposes.

The Federal Savings and Loan Insurance Corporation is not among the types listed. It is a government controlled corporation, but the government does not have a proprietary interest. It is not a corporation in which the government owns stock, and it is not a corporation in which no stock has ever been issued. It is an insurance company supported entirely by insurance premiums paid by the savings and loan associations.

Respectfully submitted,

BALL, HUNT & HART,

JOSEPH A. BALL,

JOSEPH D. MULLENDER, JR.,

Attorneys for Appellants Acron Investments, Inc., Velturon Corporation, Metrim Corporation, Fullerton Country Club, C. S. Jones, Edith B. Jones, Los Coyotes Country Club and Bellehurst Country Club.

APPENDIX.

(Portions of pages 406-409 of the United States Government Organization Manual, 1965-66 edition, pertaining to the Federal Home Loan Bank Board.)

FEDERAL HOME LOAN BANK BOARD

101 Indiana Avenue NW., Washington, D.C., 20552.
Phone, DUdley 6-3157

Chairman	John E. Horne.
Member	Michael Greenebaum.
Member	John deLaittre.
Administrative Assistant to the Chairman	Robert N. Reeves.
Executive Assistant to the Chairman and Director, Office of Administration	Simon H. Trevas.
Secretary to the Board	Harry W. Caulsen.
General Counsel	Kenneth E. Scott.
Director of Audits	William B. Martin.
Office of Administration:	
Comptroller, Comptroller's Division	Robert F. Quigley.
Director, Administrative Services Division	Charles M. Dulin.
Director, Operating Analysis Division (Data Processing)	James C. Byrnes.
Chief, Organization and Methods Division	Richard E. Griebenow.
Director, Division of Federal Home Loan Bank	

Operations	Lyndon R. Day.
Director, Division of Regulations	John M. Wyman.
Director, Office of Applications	Clarence S. Smith.
Director, Division of Personnel	Frank G. Healey.
Director, Office of Examinations and Supervision	Nathaniel L. Armistead.
Deputy Director	Lawrence M. Walters.
Director, Office of Research and Home Finance	Harry S. Schwartz.
Director, Office of Information	Clifford W. Patton.
Budget Officer	Thaddeus Corcoran.
Executive Secretary, Federal Savings and Loan Advisory Council	John J. Brady.
Secretary to the Chairman	Jeanne F. Burleson.

Federal Savings and Loan Insurance Corporation

Director, FSLIC	Jerry D. Worthy.
Assistant Director	John A. O'Brien.

Federal Savings and Loan Advisory Council
Members

Appointed by the Board:

Eugene M. Mortlock (New York, N.Y.).
George E. Leonard (Phoenix, Ariz.).
Guy L. Reed (Denver, Colo.).
Samuel W. Hawley (Bridgeport, Conn.).
Perry E. Willits (Washington, D.C.).
Jack W. Cashin (Austin, Tex.).

Elected by the Banks:

Boston—Joseph T. Benedict (Worcester, Mass.).

New York—Edward W. Kozlik (Huntington, L.I., N.Y.).

Pittsburgh—Francis E. McGill (Philadelphia, Pa.).

Greensboro—J. M. Croson (Orlando, Fla.).

Cincinnati—William S. Guthrie (Columbus, Ohio).

Indianapolis—Robert J. Hutton (Detroit, Mich.).

Chicago—Al C. Steinhauer (Madison, Wis.).

Des Moines—Russel S. Cather (Springfield, Mo.).

Little Rock: J. Harry Jeanes (Waco, Tex.).

Topeka—Robert G. Lake (Pratt, Kans.).

San Francisco—F. Marion Donahoe (San Francisco, Calif.).

Spokane — Harold C. Kean (Seattle, Wash.).

[For regulations codified under Federal Home Loan Bank Board, see Code of Federal Regulations, Title 12, Chapter V].

Creation.—The Federal Home Loan Bank Board was made an independent agency in the Executive branch under section 109 (a) (3) of the Housing Amendments of 1955 (69 Stat. 640; 12 U. S. C. 1437). Under this law the name of the Home Loan Bank Board was changed to the Federal Home Loan Bank Board. Prior to this legislation the Board was a constituent agency of the Housing and Home Finance Agency under Reorganization Plan 3 of 1947, effective July 27, 1947. Pursuant to the Plan the Board assumed the functions of the previous Federal Home Loan Bank Board, the Board of Directors of the Home Owners' Loan Corporation (since dissolved), the Board of Trustees of the Federal Savings and Loan Insurance Corporation, and

of any members of any of these boards. However, certain executive and administrative functions were transferred to the Chairman of the Federal Home Loan Bank Board by Reorganization Plan 6 of 1961, effective August 12, 1961 (75 Stat. 838.)

The activities under control of the Federal Home Loan Bank Board are provided for in the Federal Home Loan Bank Act, approved July 22, 1932 (47 Stat. 725; 12 U. S. C. 1421, et seq.); the Home Owners' Loan Act of 1933, approved June 13, 1933 (48 Stat. 128; 12 U. S. C. 1461, et seq.); and title IV of the National Housing Act, approved June 27, 1934 (48 Stat. 1255; 12 U. S. C. 1724, et seq.), together with later amendments to those acts.

Organization.—The Board consists of three members, appointed by the President by and with the advice and consent of the Senate. Not more than two members may be members of the same political party. Members are appointed for *a* term of 4 years each.

Funds—Expenses of the Board are paid by assessments against the regional Federal Home Loan Banks and the Federal Savings and Loan Insurance Corporation, and charges against institutions examined by its Examining Division. All of these activities are self-supporting and do not require the appropriation of United States Treasury funds.

Federal Home Loan Bank System

Creation:—The Federal Home Loan Bank System was created by authority of the Federal Home Loan Bank Act, approved July 22, 1932 (see citations under Federal Home Loan Bank Board), to provide credit reserve for savings and home-financing institutions.

Organization.—In operation during 1964 were 12 regional Federal Home Loan Banks of this System, located in Boston, New York, Pittsburgh, Greensboro (N.C.). Cincinnati, Indianapolis, Chicago, Des Moines, Little Rock, Topeka, San Francisco, and Spokane (opened for business April 6, 1964). The management of 5 of the 12 Banks (Boston, Pittsburgh, Greensboro, San Francisco, and Spokane) is vested in a board of 12 directors, 4 appointed by the Federal Home Loan Bank Board to represent the public interest and 8 elected by the member institutions. Four Banks (Indianapolis, Des Moines, Little Rock, and Topeka) have 13 directors each—4 appointed and 9 elected; 3 banks (New York, Cincinnati, and Chicago) have 14 directors each—4 appointed and 10 elected. The directors of each Bank elect a president and other officers, subject to approval by the Bank Board.

Capital and Funds.—The capital stock of the district Federal Home Loan Banks is entirely owned by institutions which have been accepted into membership, each of which is required to purchase stock. As of December 31, 1964, stock owned by member institutions amounted to $1,227,176,000. The Banks may obtain other loanable funds through the issuance of consolidated obligations, through deposits accepted from member institutions and from other Federal Home Loan Banks.

Eligible Institutions.—The types of institutions eligible to become members of the Federal Home Loan Banks are savings and loan, building and loan, and homestead associations, savings and cooperative banks, and insurance companies. Every Federal savings and loan association is required to become a member of its regional Federal Home Loan Bank, and to qualify for insurance

of accounts (see Federal Savings and Loan Insurance Corporation).

On December 31, 1964, there were 5,031 members in the System, having combined assets of $122,457,000,-000, located in the 50 States, Puerto Rico, Guam, and the District of Columbia. Through that date the Federal Home Loan Banks had advanced to these member institutions a total of about $32,732,000,000 of which $27,407,000,000 had been repaid, leaving outstanding a balance of $5,325,000,000.

Power to Borrow.—Consolidated Federal Home Loan Bank obligations, which are the joint and several liabilities of the Banks, are issued by the Board in the form of notes or bonds, and without guaranty by the United States. Consolidated obligations amounting to $4,369,000,000 were outstanding on December 31, 1964. In case of need the Secretary of the Treasury is authorized to purchase consolidated Federal Home Loan Bank obligations up to a billion dollars outstanding at any one time. No such purchases have been made.

Federal Savings and Loan Associations

These associations are provided for by section 5 of the Home Owners' Loan Act of 1933 (48 Stat. 132) as amended. They are chartered and supervised by the Federal Home Loan Bank Board, and may be either new institutions or converted from State-chartered institutions upon application. As of December 31, 1964, there were 1,981 Federal savings and loan associations, with combined assets of more than $61,643,000,000.

Federal Savings and Loan Insurance Corporation

Creation.—The Federal Savings and Loan Insurance Corporation was created by title IV of the National

Housing Act (see citations under Federal Home Loan Bank Board), to insure the safety of savings in thrift and home-financing institutions.

Organization.—The operations of the Federal Savings and Loan Insurance Corporation come under the general direction and supervision of the Federal Home Loan Bank Board.

Functions.—The Corporation insures the safety of savings and credited earnings up to $10,000 for each investor's account in an insured institution. All Federal savings and loan associations, and these State-chartered building and loan, savings and loan, and homestead associations and cooperative banks which apply and are approved, are insured. On December 31, 1964, there were 4,463 insured institutions, with total assets of about $114,652,000,000.

Default Procedure.—To prevent the default of an insured institution or restore it to normal operation, the Corporation may make loans to, purchase assets of, or make a financial contribution to such an institution. In the event of a default by any insured institution, payment of each insured account in such insured institution, which is surrendered and transferred to the Corporation, shall be made by the Corporation as soon as possible, either (1) by cash or (2) by making available to each insured member a transferred account in a new insured institution in the same community or in another insured institution in an amount equal to the insured account of such insured member.

Funds.—Income of the Corporation consists principally of premiums paid by insured institutions and interest earned on investments. All income above expenses

is transferred to reserves. Reserves and unallocated income, as of December 31, 1964, totaled $1,252,000,000. The Corporation is authorized to obtain additional funds for insurance purposes from the United States Treasury not exceeding $750,000,000 outstanding at any one time. This borrowing authority has never been exercised.

Retirement of Capital Stock.—The capital stock of the Corporation, originally issued in the amount of $100,000,000 and formerly held by the United States Treasury, has now been completely retired. As provided by law, effective June 27, 1950, the Corporation retired at the end of each fiscal year an amount of its capital stock equal to 50 percent of its net income for the year.

Federal Savings and Loan Advisory Council

The Federal Savings and Loan Advisory Council is an independent statutory advisory body empowered to consult with the Federal Home Loan Bank Board in its administration of the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the Federal Savings and Loan System. Establishment of the Council emphasized the public interest which is inherent in operations of the Board agencies and of the supervised savings and home financing institutions which serve many millions of savers, investors, and homeowners over the Nation. Meeting in Washington at least twice a year, the Council may initiate recommendations to the Board and request information from the Board with respect to matters within the jurisdiction of the Board.

The Council consists of 18 members—one elected for each of the 12 Federal Home Loan Bank Districts, and six appointed annually by the Federal Home Loan Bank

Board. The elected, members are generally chosen from the ranks of active savings and loan managers. The appointed members are chosen on the basis of leadership in business or the professions.

Approved.

John E. Horne,
Chairman.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

JOSEPH D. MULLENDER, JR.